CHAPTER 5

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Accounting Systems

Intuit Inc.

Whether you realize it or not, you likely interact with accounting systems. For example, your bank statement is a type of accounting system. When you make a deposit, the bank records an addition to your cash; when you withdraw cash, the bank records a reduction in your cash. Such a simple accounting system works well for a person with just a few transactions per month. However, over time, you may find that your financial affairs will become more complex and involve many different types of transactions, including investments and loan payments. At this point, relying on your bank statement may not be sufficient for managing your financial affairs. Personal financial planning software, such as **Intuit**'s Quicken, can be useful when your financial affairs become more complex.

What happens if you decide to begin a small business? Transactions expand to include customers, vendors, and employees. As a result, the accounting system will need to adjust to this complexity. Thus, many small businesses will use small-business accounting software, such as Intuit's QuickBooks, as their first accounting system. As a business grows, more sophisticated accounting systems will be needed. Companies such as **SAP**, **Oracle**, **Microsoft**, and **Sage Software, Inc.**, offer accounting system solutions for businesses that become larger with more complex accounting needs.

Accounting systems used by large and small businesses employ the basic principles of the accounting cycle discussed in the previous chapters. However, these accounting systems include features that simplify the recording and summary process. In this chapter, we will discuss these simplifying procedures as they apply to both manual and computerized systems.

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Learning Objectives

After studying this chapter, you should be able to:	Example Exercises	Page
OBJ. 1 Define and describe an accounting system. Basic Accounting Systems		
OBJ. 2 Journalize and post transactions in a manual accounting system that uses subsidiary ledgers and special journals. Manual Accounting Systems		
Subsidiary Ledgers		
Special Journals		
Revenue Journal	EE 5-1	211
Cash Receipts Journal		
Accounts Receivable Control Account and Subsidiary Ledger	EE 5-2	214
Purchases Journal	EE 5-3	216
Cash Payments Journal		
Accounts Payable Control Account and Subsidiary Ledger	EE 5-4	219
OBJ. 3 Describe and illustrate the use of a computerized accounting system. Computerized Accounting Systems		
OBJ. 4 Describe the basic features of e-commerce. E-Commerce		
OBJ. 5 Use segment analysis in evaluating the operating performance of a company. Financial Analysis and Interpretation: Segment Analysis	EE 5-5	225

At a Glance 5 Page 225

OBJ. 1 Define and describe an accounting system.

Basic Accounting Systems

In Chapters 1–4, an accounting system for NetSolutions was described and illustrated. An **accounting system** is the methods and procedures for collecting, classifying, summarizing, and reporting a business's financial and operating information. Most accounting systems, however, are more complex than NetSolutions'. For example, Southwest Airlines's accounting system not only records basic transaction data, but also records data on such items as ticket reservations, credit card collections, frequent-flier mileage, and aircraft maintenance.

As a business grows and changes, its accounting system also changes in a three-step process. This three-step process is as follows:

Step 1. *Analyze* user information needs.
Step 2. *Design* the system to meet the user needs.
Step 3. *Implement* the system.

For NetSolutions, our analysis determined that Chris Clark needed financial statements for the new business. We designed the system, using a basic manual system that included a chart of accounts, a two-column journal, and a general ledger. Finally, we implemented the system to record transactions and prepare financial statements.

Once a system has been implemented, input from users is used to analyze and improve the system. For example, in later chapters, NetSolutions expands its chart of accounts to record more complex transactions.

The accounting system design consists of:

1. internal controls and
2. information processing methods.

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Internal controls are the policies and procedures that protect assets from misuse, ensure that business information is accurate, and ensure that laws and regulations are being followed. Internal controls are discussed in Chapter 8.

Processing methods are the means by which the accounting system collects, summarizes, and reports accounting information. These methods may be either *manual* or *computerized*. In the following sections, manual accounting systems that use special journals and subsidiary ledgers are described and illustrated. This is followed by a discussion of computerized accounting systems.

Manual Accounting Systems

OBJ. 2 Journalize and post transactions in a manual accounting system that uses subsidiary ledgers and special journals.

Accounting systems are manual or computerized. Understanding a manual accounting system is useful in identifying relationships between accounting data and reports. Also, most computerized systems use principles from manual systems.

In prior chapters, the transactions for NetSolutions were manually recorded in an all-purpose (two-column) journal. The journal entries were then posted individually to the accounts in the ledger. Such a system is simple to use and easy to understand when there are a small number of transactions. However, when a business has a large number of *similar* transactions, using an all-purpose journal is inefficient and impractical. In such cases, subsidiary ledgers and special journals are useful.

Subsidiary Ledgers

A large number of individual accounts with a common characteristic can be grouped together in a separate ledger called a **subsidiary ledger**. The primary ledger, which contains all of the balance sheet and income statement accounts, is then called the **general ledger**. Each subsidiary ledger is represented in the general ledger by a summarizing account, called a **controlling account**. The sum of the balances of the accounts in a subsidiary ledger must equal the balance of the related controlling account. Thus, a subsidiary ledger is a secondary ledger that supports a controlling account in the general ledger.

Two of the most common subsidiary ledgers are as follows:

1. Accounts receivable subsidiary ledger
2. Accounts payable subsidiary ledger

The **accounts receivable subsidiary ledger**, or *customers ledger*, lists the individual customer accounts in alphabetical order. The controlling account in the general ledger that summarizes the debits and credits to the individual customer accounts is Accounts Receivable.

The **accounts payable subsidiary ledger**, or *creditors ledger*, lists individual creditor accounts in alphabetical order. The related controlling account in the general ledger is Accounts Payable.

The relationship between the general ledger and the accounts receivable and accounts payable subsidiary ledgers is illustrated in Exhibit 1.

Many businesses use subsidiary ledgers for other accounts in addition to Accounts Receivable and Accounts Payable. For example, businesses often use an equipment subsidiary ledger to keep track of each item of equipment purchased, its cost, location, and other data.

Special Journals

One method of processing transactions more efficiently in a manual system is to use special journals. **Special journals** are designed to record a single kind of

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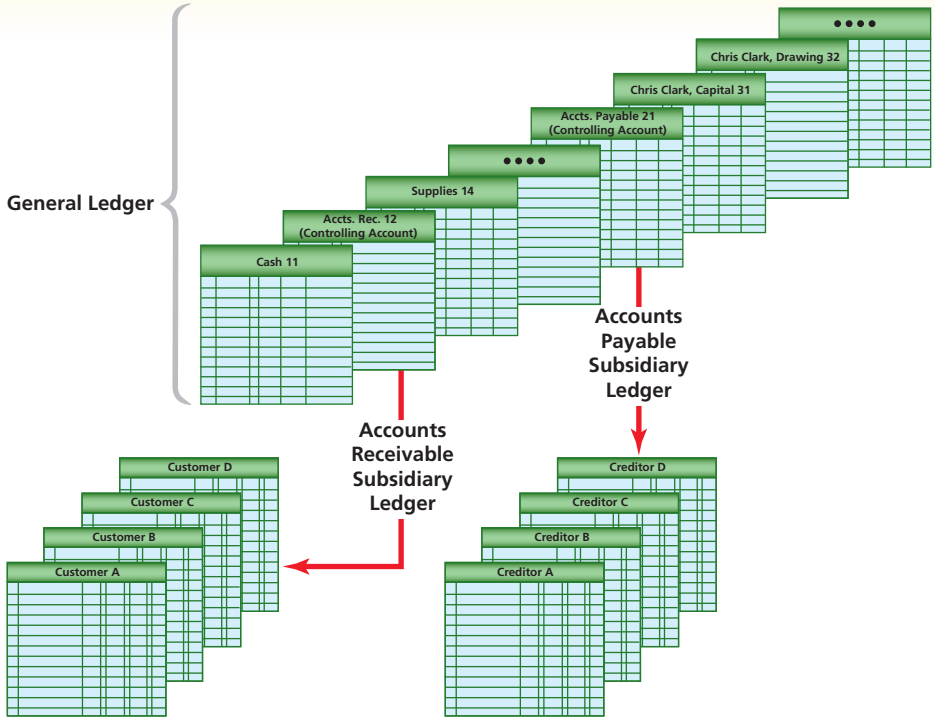
EXHIBIT 1 **General Ledger and Subsidiary Ledgers**



transaction that occurs frequently. For example, since most businesses have many transactions in which cash is paid out, they will likely use a special journal for recording cash payments. Likewise, they will use another special journal for recording cash receipts.

The format and number of special journals that a business uses depends on the nature of the business. The common transactions and their related special journals used by small service businesses are as follows:

Providing services *on account*	recorded in →	Revenue journal
Receipt of cash from *any* source	recorded in →	Cash receipts journal
Purchase of items *on account*	recorded in →	Purchases journal
Payment of cash for *any* purpose	recorded in →	Cash payments journal

The all-purpose two-column journal, called the **general journal** or simply the *journal,* can be used for entries that do not fit into any of the special journals. For example, adjusting and closing entries are recorded in the general journal.

The following types of transactions, special journals, and subsidiary ledgers are described and illustrated for **NetSolutions**:

Transaction	Special Journal	Subsidiary Ledger
Fees earned on account	Revenue journal	Accounts receivable subsidiary ledger
Cash receipts	Cash receipts journal	Accounts receivable subsidiary ledger
Purchases on account	Purchases journal	Accounts payable subsidiary ledger
Cash payments	Cash payments journal	Accounts payable subsidiary ledger

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As shown above, transactions that are recorded in the revenue and cash receipts journals will affect the accounts receivable subsidiary ledger. Likewise, transactions that are recorded in the purchases and cash payments journals will affect the accounts payable subsidiary ledger.

We will assume that NetSolutions had the following selected general ledger balances on March 1, 2012:

Account Number	Account	Balance
11	Cash	$6,200
12	Accounts Receivable	3,400
14	Supplies	2,500
18	Office Equipment	2,500
21	Accounts Payable	1,230

Revenue Journal

Fees earned on account would be recorded in the **revenue journal**. *Cash fees earned* would be recorded in the cash receipts journal.

To illustrate the efficiency of using a revenue journal, an example for NetSolutions is used. Specifically, assume that NetSolutions recorded the following four revenue transactions for March in its general journal:

2012						
Mar.	2	Accounts Receivable—Accessories By Claire	12/✓	2,200		
		Fees Earned	41			2,200
	6	Accounts Receivable—RapZone	12/✓	1,750		
		Fees Earned	41			1,750
	18	Accounts Receivable—Web Cantina	12/✓	2,650		
		Fees Earned	41			2,650
	27	Accounts Receivable—Accessories By Claire	12/✓	3,000		
		Fees Earned	41			3,000

For the above entries, NetSolutions recorded eight account titles and eight amounts. In addition, NetSolutions made 12 postings to the ledgers—four to Accounts Receivable in the general ledger, four to the accounts receivable subsidiary ledger (indicated by each check mark), and four to Fees Earned in the general ledger.

The preceding revenue transactions could be recorded more efficiently in a revenue journal, as shown in Exhibit 2. In each revenue transaction, the amount of the debit to Accounts Receivable is the same as the amount of the credit to Fees Earned. Thus, only a single amount column is necessary. The date, invoice number, customer name, and amount are entered separately for each transaction.

Revenues are normally recorded in the revenue journal when the company sends an invoice to the customer. An **invoice** is the bill that is sent to the customer by the company. Each invoice is normally numbered in sequence for future reference.

To illustrate, assume that on March 2 NetSolutions issued Invoice No. 615 to Accessories By Claire for fees earned of $2,200. This transaction is entered in the revenue journal, shown in Exhibit 2, by entering the following items:

1. Date column: *Mar. 2*
2. Invoice No. column: *615*

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EXHIBIT 2 **Revenue Journal**

Revenue Journal *Page 35*

Date		Invoice No.	Account Debited	Post. Ref.	Accts. Rec. Dr. Fees Earned Cr.
2012					
Mar.	2	615	Accessories By Claire		2,200
	6	616	RapZone		1,750
	18	617	Web Cantina		2,650
	27	618	Accessories By Claire		3,000
	31				9,600

3. Account Debited column: *Accessories By Claire*
4. Accts. Rec. Dr./Fees Earned Cr. column: *2,200*

The process of posting from a revenue journal, shown in Exhibit 3, is as follows:

1. Each transaction is posted individually to a customer account in the accounts receivable subsidiary ledger. Postings to customer accounts should be made on a regular basis. In this way, the customer's account will show a current balance. Since the balances in the customer accounts are usually debit balances, the three-column account form is shown in Exhibit 3.

   To illustrate, Exhibit 3 shows the posting of the $2,200 debit to Accessories By Claire in the accounts receivable subsidiary ledger. After the posting, Accessories By Claire has a debit balance of $2,200.

2. To provide a trail of the entries posted to the subsidiary and general ledger, the source of these entries is indicated in the Posting Reference column of each account by inserting the letter R (for revenue journal) and the page number of the revenue journal.

   To illustrate, Exhibit 3 shows that after $2,200 is posted to Accessories By Claire's account, R35 is inserted into the Post. Ref. column of the account.

3. To indicate that the transaction has been posted to the accounts receivable subsidiary ledger, a check mark (✓) is inserted in the Post. Ref. column of the revenue journal, as shown in Exhibit 3.

   To illustrate, Exhibit 3 shows that a check mark (✓) has been inserted in the Post. Ref. column next to Accessories By Claire in the revenue journal to indicate that the $2,200 has been posted.

4. A single monthly total is posted to Accounts Receivable and Fees Earned in the general ledger. This total is equal to the sum of the month's debits to the individual accounts in the subsidiary ledger. It is posted in the general ledger as a debit to Accounts Receivable and a credit to Fees Earned, as shown in Exhibit 3. The accounts receivable account number (12) and the fees earned account number (41) are then inserted below the total in the revenue journal to indicate that the posting is completed.

   To illustrate, Exhibit 3 shows the monthly total of $9,600 was posted as a debit to Accounts Receivable (12) and as a credit to Fees Earned (41).

Exhibit 3 illustrates the efficiency gained by using the revenue journal rather than the general journal. Specifically, all of the transactions for fees earned during the month are posted to the general ledger only once—at the end of the month.

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EXHIBIT 3 **Revenue Journal and Postings**

Revenue Journal *Page 35*

Date	Invoice No.	Account Debited	Post. Ref.	Accts. Rec. Dr. Fees Earned Cr.
2012 Mar. 2	615	Accessories By Claire	✓	2,200
6	616	RapZone	✓	1,750
18	617	Web Cantina	✓	2,650
27	618	Accessories By Claire	✓	3,000
31				9,600
				(12) (41)

General Ledger

Account *Accounts Receivable* Account No. *12*

Date	Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2012 Mar. 1	Balance	✓			3,400	
31		R35	9,600		13,000	

Account *Fees Earned* Account No. *41*

Date	Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2012 Mar. 31		R35		9,600		9,600

Accounts Receivable Subsidiary Ledger

Name: *Accessories By Claire*

Date	Item	Post. Ref.	Debit	Credit	Balance
2012 Mar. 2		R35	2,200		2,200
27		R35	3,000		5,200

Name: *RapZone*

Date	Item	Post. Ref.	Debit	Credit	Balance
2012 Mar. 6		R35	1,750		1,750

Name: *Web Cantina*

Date	Item	Post. Ref.	Debit	Credit	Balance
2012 Mar. 1	Balance	✓			3,400
18		R35	2,650		6,050

Example Exercise 5-1 Revenue Journal

OBJ. 2

The following revenue transactions occurred during December:

Dec. 5. Issued Invoice No. 302 to Butler Company for services provided on account, $5,000.
9. Issued Invoice No. 303 to JoJo Enterprises for services provided on account, $2,100.
15. Issued Invoice No. 304 to Double D Inc. for services provided on account, $3,250.

Record these transactions in a revenue journal as illustrated in Exhibit 2.

Follow My Example 5-1

REVENUE JOURNAL

Date	Invoice No.	Account Debited	Post. Ref.	Accts. Rec. Dr. Fees Earned Cr.
Dec. 5	302	Butler Company		5,000
9	303	JoJo Enterprises		2,100
15	304	Double D Inc.		3,250

Practice Exercises: **PE 5-1A, PE 5-1B**

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Cash Receipts Journal

All transactions that involve the receipt of cash are recorded in a **cash receipts journal**. The cash receipts journal for NetSolutions is shown in Exhibit 4.

The cash receipts journal shown in Exhibit 4 has a Cash Dr. column. The kinds of transactions in which cash is received and how often they occur determine the titles of the other columns. For example, NetSolutions often receives cash from customers on account. Thus, the cash receipts journal in Exhibit 4 has an Accounts Receivable Cr. column.

To illustrate, on March 28 Accessories By Claire made a payment of $2,200 on its account. This transaction is recorded in the cash receipts journal, shown in Exhibit 4, by entering the following items:

1. Date column: *Mar. 28*
2. Account Credited column: *Accessories By Claire*

EXHIBIT 4 **Cash Receipts Journal and Postings**

Cash Receipts Journal *Page 14*

Date	Account Credited	Post. Ref.	Other Accounts Cr.	Accounts Receivable Cr.	Cash Dr.
2012 Mar. 1	Rent Revenue	42	400		400
19	Web Cantina	✓		3,400	3,400
28	Accessories By Claire	✓		2,200	2,200
30	RapZone	✓		1,750	1,750
31			400	7,350	7,750
			(✓)	(12)	(11)

General Ledger

Account *Cash* Account No. *11*

Date	Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2012 Mar. 1	Balance	✓			6,200	
31		CR14	7,750		13,950	

Account *Accounts Receivable* Account No. *12*

Date	Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2012 Mar. 1	Balance	✓			3,400	
31		R35	9,600		13,000	
31		CR14		7,350	5,650	

Account *Rent Revenue* Account No. *42*

Date	Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2012 Mar. 1		CR14		400		400

Accounts Receivable Subsidiary Ledger

Name: *Accessories By Claire*

Date	Item	Post. Ref.	Debit	Credit	Balance
2012 Mar. 2		R35	2,200		2,200
27		R35	3,000		5,200
28		CR14		2,200	3,000

Name: *RapZone*

Date	Item	Post. Ref.	Debit	Credit	Balance
2012 Mar. 6		R35	1,750		1,750
30		CR14		1,750	—

Name: *Web Cantina*

Date	Item	Post. Ref.	Debit	Credit	Balance
2012 Mar. 1	Balance	✓			3,400
18		R35	2,650		6,050
19		CR14		3,400	2,650

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3. Accounts Receivable Cr. column: *2,200*
4. Cash Dr. column: *2,200*

The Other Accounts Cr. column in Exhibit 4 is used for recording credits to any account for which there is no special credit column. For example, NetSolutions received cash on March 1 for rent. Since no special column exists for Rent Revenue, Rent Revenue is entered in the Account Credited column. Thus, this transaction is recorded in the cash receipts journal, shown in Exhibit 4, by entering the following items:

1. Date column: *Mar. 1*
2. Account Credited column: *Rent Revenue*
3. Other Accounts Cr. column: *400*
4. Cash Dr. column: *400*

At the end of the month, all of the amount columns are totaled. The debits must equal the credits. If the debits do not equal the credits, an error has occurred. Before proceeding further, the error must be found and corrected.

The process of posting from the cash receipts journal, shown in Exhibit 4, is:

1. Each transaction involving the receipt of cash on account is posted individually to a customer account in the accounts receivable subsidiary ledger. Postings to customer accounts should be made on a regular basis. In this way, the customer's account will show a current balance.

   To illustrate, Exhibit 4 shows on March 19 the receipt of $3,400 on account from Web Cantina. The posting of the $3,400 credit to Web Cantina in the accounts receivable subsidiary ledger is also shown in Exhibit 4. After the posting, Web Cantina has a debit balance of $2,650. If a posting results in a customer's account with a credit balance, the credit balance is indicated by an asterisk or parentheses in the Balance column. If an account's balance is zero, a line may be drawn in the Balance column.
2. To provide a trail of the entries posted to the subsidiary ledger, the source of these entries is indicated in the Posting Reference column of each account by inserting the letter CR (for cash receipts journal) and the page number of the cash receipts journal.

   To illustrate, Exhibit 4 shows that after $3,400 is posted to Web Cantina's account in the accounts receivable subsidiary ledger, CR14 is inserted into the Post. Ref. column of the account.
3. To indicate that the transaction has been posted to the accounts receivable subsidiary ledger, a check mark (✓) is inserted in the Posting Reference column of the cash receipts journal.

   To illustrate, Exhibit 4 shows that a check mark (✓) has been inserted in the Post. Ref. column next to Web Cantina to indicate that the $3,400 has been posted.
4. A single monthly total of the Accounts Receivable Cr. column is posted to the accounts receivable general ledger account. This is the total cash received on account and is posted as a credit to Accounts Receivable. The accounts receivable account number (12) is then inserted below the Accounts Receivable Cr. column to indicate that the posting is complete.

   To illustrate, Exhibit 4 shows the monthly total of $7,350 was posted as a credit to Accounts Receivable (12).
5. A single monthly total of the Cash Dr. column is posted to the cash general ledger account. This is the total cash received during the month and is posted as a debit to Cash. The cash account number (11) is then inserted below the Cash Dr. column to indicate that the posting is complete.

   To illustrate, Exhibit 4 shows the monthly total of $7,750 was posted as a debit to Cash (11).
6. The accounts listed in the Other Accounts Cr. column are posted on a regular basis as a separate credit to each account. The account number is then inserted in the Post. Ref. column to indicate that the posting is complete. Because accounts in the Other Accounts Cr. column are posted individually, a check mark is placed below the column total at the end of the month to show that no further action is needed.

   To illustrate, Exhibit 4 shows that $400 was posted as a credit to Rent Revenue in the general ledger, and the rent revenue account number (42) was entered in the Post. Ref. column of the cash receipts journal. Also, at the end of the month a check mark (✓) is entered below the Other Accounts Cr. column to indicate that no further action is needed.

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Accounts Receivable Control Account and Subsidiary Ledger

After all posting has been completed for the month, the balances in the accounts receivable subsidiary ledger should be totaled. This total should then be compared with the balance of the accounts receivable controlling account in the general ledger. If the controlling account and the subsidiary ledger do not agree, an error has occurred. Before proceeding further, the error must be located and corrected.

The total of NetSolutions' accounts receivable subsidiary ledger is $5,650. This total agrees with the balance of its accounts receivable control account on March 31, 2012, as shown below.

Accounts Receivable (Control)	
Balance, March 1, 2012	$ 3,400
Total debits (from revenue journal)	9,600
Total credits (from cash receipts journal)	(7,350)
Balance, March 31, 2012	$ 5,650

NetSolutions Accounts Receivable Customer Balances March 31, 2012	
Accessories By Claire	$3,000
RapZone	0
Web Cantina	2,650
Total accounts receivable	$5,650

Equal debit balances

Example Exercise 5-2 Accounts Receivable Subsidiary Ledger

OBJ. 2

The debits and credits from two transactions are presented in the following customer account:

NAME *Sweet Tooth Confections*
ADDRESS *1212 Lombard St.*

Date	Item	Post. Ref.	Debit	Credit	Balance
July 1	Balance				625
7	Invoice 35	R12	86		711
31	Invoice 31	CR4		122	589

Describe each transaction and the source of each posting.

Follow My Example 5-2

July 7. Provided $86 of services on account to Sweet Tooth Confections, itemized on Invoice No. 35. Amount posted from page 12 of the revenue journal.

31. Collected cash of $122 from Sweet Tooth Confections (Invoice No. 31). Amount posted from page 4 of the cash receipts journal.

Practice Exercises: **PE 5-2A, PE 5-2B**

Purchases Journal

All *purchases on account* are recorded in the **purchases journal**. *Cash purchases would be recorded in the cash payments journal.* The purchases journal for NetSolutions is shown in Exhibit 5.

The amounts purchased on account are recorded in the purchases journal in an Accounts Payable Cr. column. The items most often purchased on account determine the titles of the other columns. For example, NetSolutions often purchases supplies on account. Thus, the purchases journal in Exhibit 5 has a Supplies Dr. column.

To illustrate, on March 3 NetSolutions purchased $600 of supplies on account from Howard Supplies. This transaction is recorded in the purchases journal, shown in Exhibit 5, by entering the following items:

1. Date column: *Mar. 3*
2. Account Credited column: *Howard Supplies*
3. Accounts Payable Cr. column: *600*
4. Supplies Dr. column: *600*

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The Other Accounts Dr. column in Exhibit 5 is used to record purchases on account of any item for which there is no special debit column. The title of the account to be debited is entered in the Other Accounts Dr. column, and the amount is entered in the Amount column.

EXHIBIT 5 **Purchases Journal and Postings**

Purchases Journal *Page 11*

Date	Account Credited	Post. Ref.	Accounts Payable Cr.	Supplies Dr.	Other Accounts Dr.	Post. Ref.	Amount
2012 Mar. 3	Howard Supplies	✓	600	600			
7	Donnelly Supplies	✓	420	420			
12	Jewett Business Systems	✓	2,800		Office Equipment	18	2,800
19	Donnelly Supplies	✓	1,450	1,450			
27	Howard Supplies	✓	960	960			
31			6,230	3,430			2,800
			(21)	(14)			(✓)

General Ledger

Account *Supplies* Account No. *14*

Date	Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2012 Mar. 1	Balance	✓			2,500	
31		P11	3,430		5,930	

Account *Office Equipment* Account No. *18*

Date	Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2012 Mar. 1	Balance	✓			2,500	
12		P11	2,800		5,300	

Account *Accounts Payable* Account No. *21*

Date	Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2012 Mar. 1	Balance	✓				1,230
31		P11		6,230		7,460

Accounts Payable Subsidiary Ledger

Name: *Donnelly Supplies*

Date	Item	Post. Ref.	Debit	Credit	Balance
2012 Mar. 7		P11		420	420
19		P11		1,450	1,870

Name: *Grayco Supplies*

Date	Item	Post. Ref.	Debit	Credit	Balance
2012 Mar. 1	Balance	✓			1,230

Name: *Howard Supplies*

Date	Item	Post. Ref.	Debit	Credit	Balance
2012 Mar. 3		P11		600	600
27		P11		960	1,560

Name: *Jewett Business Systems*

Date	Item	Post. Ref.	Debit	Credit	Balance
2012 Mar. 12		P11		2,800	2,800

To illustrate, on March 12 NetSolutions purchased office equipment on account from Jewett Business Systems for $2,800. This transaction is recorded in the purchases journal shown in Exhibit 5 by entering the following items:

1. Date column: *Mar. 12*
2. Account Credited column: *Jewett Business Systems*
3. Accounts Payable Cr. column: *2,800*
4. Other Accounts Dr. column: *Office Equipment*
5. Amount column: *2,800*

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At the end of the month, all of the amount columns are totaled. The debits must equal the credits. If the debits do not equal the credits, an error has occurred. Before proceeding further, the error must be found and corrected.

The process of posting from the purchases journal shown in Exhibit 5 is as follows:

1. Each transaction involving a purchase on account is posted individually to a creditor's account in the accounts payable subsidiary ledger. Postings to creditor accounts should be made on a regular basis. In this way, the creditor's account will show a current balance.

   To illustrate, Exhibit 5 shows on March 3 the purchase of supplies of $600 on account from Howard Supplies. The posting of the $600 credit to Howard Supplies accounts payable subsidiary ledger is also shown in Exhibit 5. After the posting, Howard Supplies has a credit balance of $600.

2. To provide a trail of the entries posted to the subsidiary and general ledgers, the source of these entries is indicated in the Posting Reference column of each account by inserting the letter P (for purchases journal) and the page number of the purchases journal.

   To illustrate, Exhibit 5 shows that after $600 is posted to Howard Supplies account, P11 is inserted into the Post. Ref. column of the account.

3. To indicate that the transaction has been posted to the accounts payable subsidiary ledger, a check mark (✓) is inserted in the Posting Reference column of the purchases journal, as shown in Exhibit 5.

   To illustrate, Exhibit 5 shows that a check mark (✓) has been inserted in the Post. Ref. column next to Howard Supplies to indicate that the $600 has been posted.

4. A single monthly total of the Accounts Payable Cr. column is posted to the accounts payable general ledger account. This is the total amount purchased on account and is posted as a credit to Accounts Payable. The accounts payable account number (21) is then inserted below the Accounts Payable Cr. column to indicate that the posting is complete.

   To illustrate, Exhibit 5 shows the monthly total of $6,230 was posted as a credit to Accounts Payable (21).

5. A single monthly total of the Supplies Dr. column is posted to the supplies general ledger account. This is the total supplies purchased on account during the month and is posted as a debit to Supplies. The supplies account number (14) is then inserted below the Supplies Dr. column to indicate that the posting is complete.

   To illustrate, Exhibit 5 shows the monthly total of $3,430 was posted as a debit to Supplies (14).

6. The accounts listed in the Other Accounts Dr. column are posted on a regular basis as a separate debit to each account. The account number is then inserted in the Post. Ref. column to indicate that the posting is complete. Because accounts in the Other Accounts Dr. column are posted individually, a check mark is placed below the column total at the end of the month to show that no further action is needed.

Example Exercise 5-3 Purchases Journal

OBJ. 2

The following purchase transactions occurred during October for Helping Hand Cleaners:

Oct. 11. Purchased cleaning supplies for $235, on account, from General Supplies.
19. Purchased cleaning supplies for $110, on account, from Hubble Supplies.
24. Purchased office equipment for $850, on account, from Office Warehouse.

Record these transactions in a purchases journal as illustrated at the top of Exhibit 5.

Follow My Example 5-3

PURCHASES JOURNAL

Date	Account Credited	Post. Ref.	Accounts Payable Cr.	Cleaning Supplies Dr.	Other Accounts Dr.	Post. Ref.	Amount
Oct. 11	General Supplies		235	235			
19	Hubble Supplies		110	110			
24	Office Warehouse		850		Office Equipment		850

Practice Exercises: PE 5-3A, PE 5-3B

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To illustrate, Exhibit 5 shows that $2,800 was posted as a debit to Office Equipment in the general ledger, and the office equipment account number (18) was entered in the Post. Ref. column of the purchases journal. Also, at end of month, a check mark (✓) is entered below the Amount column to indicate no further action is needed.

Cash Payments Journal

All transactions that involve the payment of cash are recorded in a **cash payments journal**. The cash payments journal for NetSolutions is shown in Exhibit 6.

The cash payments journal shown in Exhibit 6 has a Cash Cr. column. The kinds of transactions in which cash is paid and how often they occur determine the titles of the other columns. For example, NetSolutions often pays cash to creditors on account. Thus, the cash payments journal in Exhibit 6 has an Accounts Payable Dr. column. In addition, NetSolutions makes all payments by check. Thus, a check number is entered for each payment in the Ck. No. (Check Number) column to the right of the Date column. The check numbers are helpful in controlling cash payments and provide a useful cross-reference.

To illustrate, on March 15 NetSolutions issued Check No. 151 for $1,230 to Grayco Supplies for payment on its account. This transaction is recorded in the cash payments journal shown in Exhibit 6 by entering the following items:

1. Date column: *Mar. 15*
2. Ck. No. column: *151*
3. Account Debited column: *Grayco Supplies*
4. Accounts Payable Dr. column: *1,230*
5. Cash Cr. column: *1,230*

The Other Accounts Dr. column in Exhibit 6 is used for recording debits to any account for which there is no special debit column. For example, NetSolutions issued Check No. 150 on March 2 for $1,600 in payment of March rent. This transaction is recorded in the cash payments journal, shown in Exhibit 6, by entering these items:

1. Date column: *Mar. 2*
2. Ck. No. column: *150*
3. Account Debited column: *Rent Expense*
4. Other Accounts Dr. column: *1,600*
5. Cash Cr. column: *1,600*

At the end of the month, all of the amount columns are totaled. The debits must equal the credits. If the debits do not equal the credits, an error has occurred. Before proceeding further, the error must be found and corrected.

The process of posting from the cash payments journal, Exhibit 6, is as follows:

1. Each transaction involving the payment of cash on account is posted individually to a creditor account in the accounts payable subsidiary ledger. Postings to creditor accounts should be made on a regular basis. In this way, the creditor's account will show a current balance.
   To illustrate, Exhibit 6 shows on March 22 the payment of $420 on account to Donnelly Supplies. The posting of the $420 debit to Donnelly Supplies in the accounts payable subsidiary ledger is also shown in Exhibit 6. After the posting, Donnelly Supplies has a credit balance of $1,450.
2. To provide a trail of the entries posted to the subsidiary and general ledgers, the source of these entries is indicated in the Posting Reference column of each account by inserting the letter CP (for cash payments journal) and the page number of the cash payments journal.
   To illustrate, Exhibit 6 shows that after $420 is posted to Donnelly Supplies account, CP7 is inserted into the Post. Ref. column of the account.
3. To indicate that the transaction has been posted to the accounts payable subsidiary ledger, a check mark (✓) is inserted in the Posting Reference column of the cash payments journal.
   To illustrate, Exhibit 6 shows that a check mark (✓) has been inserted in the Post. Ref. column next to Donnelly Supplies to indicate that the $420 has been posted.

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EXHIBIT 6 **Cash Payments Journal and Postings**

Cash Payments Journal — Page 7

Date	Ck. No.	Account Debited	Post. Ref.	Other Accounts Dr.	Accounts Payable Dr.	Cash Cr.
2012 Mar. 2	150	Rent Expense	52	1,600		1,600
15	151	Grayco Supplies	✓		1,230	1,230
21	152	Jewett Business Systems	✓		2,800	2,800
22	153	Donnelly Supplies	✓		420	420
30	154	Utilities Expense	54	1,050		1,050
31	155	Howard Supplies	✓		600	600
31				2,650 (✓)	5,050 (21)	7,700 (11)

General Ledger

Account *Cash* — Account No. *11*

Date	Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2012 Mar. 1	Balance	✓			6,200	
31		CR14	7,750		13,950	
31		CP7		7,700	6,250	

Account *Accounts Payable* — Account No. *21*

Date	Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2012 Mar. 1	Balance	✓				1,230
31		P11		6,230		7,460
31		CP7	5,050			2,410

Account *Rent Expense* — Account No. *52*

Date	Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2012 Mar. 2		CP7	1,600		1,600	

Account *Utilities Expense* — Account No. *54*

Date	Item	Post. Ref.	Debit	Credit	Balance Debit	Balance Credit
2012 Mar. 30		CP7	1,050		1,050	

Accounts Payable Subsidiary Ledger

Name: *Donnelly Supplies*

Date	Item	Post. Ref.	Debit	Credit	Balance
2012 Mar. 7		P11		420	420
19		P11		1,450	1,870
22		CP7	420		1,450

Name: *Grayco Supplies*

Date	Item	Post. Ref.	Debit	Credit	Balance
2012 Mar. 1	Balance	✓			1,230
15		CP7	1,230		—

Name: *Howard Supplies*

Date	Item	Post. Ref.	Debit	Credit	Balance
2012 Mar. 3		P11		600	600
27		P11		960	1,560
31		CP7	600		960

Name: *Jewett Business Systems*

Date	Item	Post. Ref.	Debit	Credit	Balance
2012 Mar. 12		P11		2,800	2,800
21		CP7	2,800		—

4. A single monthly total of the Accounts Payable Dr. column is posted to the accounts payable general ledger account. This is the total cash paid on account and is posted as a debit to Accounts Payable. The accounts payable account number (21) is then inserted below the Accounts Payable Dr. column to indicate that the posting is complete. *To illustrate, Exhibit 6 shows the monthly total of $5,050 was posted as a debit to Accounts Payable (21).*

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5. A single monthly total of the Cash Cr. column is posted to the cash general ledger account. This is the total cash payments during the month and is posted as a credit to Cash. The cash account number (11) is then inserted below the Cash Cr. column to indicate that the posting is complete.
   To illustrate, Exhibit 6 shows the monthly total of $7,700 was posted as a credit to Cash (11).
6. The accounts listed in the Other Accounts Dr. column are posted on a regular basis as a separate debit to each account. The account number is then inserted in the Post. Ref. column to indicate that the posting is complete. Because accounts in the Other Accounts Dr. column are posted individually, a check mark is placed below the column total at the end of the month to show that no further action is needed.
   To illustrate, Exhibit 6 shows that $1,600 was posted as a debit to Rent Expense (52) and $1,050 was posted as a debit to Utilities Expense (54) in the general ledger. The account numbers (52 and 54, respectively) were entered in the Post. Ref. column of the cash payments journal. Also, at the end of the month, a check mark (✓) is entered below the Other Accounts Dr. column to indicate that no further action is needed.

Accounts Payable Control Account and Subsidiary Ledger

After all posting has been completed for the month, the balances in the accounts payable subsidiary ledger should be totaled. This total should then be compared with the balance of the accounts payable controlling account in the general ledger. If the controlling account and the subsidiary ledger do not agree, an error has occurred. Before proceeding, the error must be located and corrected.

The total of NetSolutions' accounts payable subsidiary ledger is $2,410. This total agrees with the balance of its accounts payable control account on March 31, 2012, as shown below.

Accounts Payable (Control)

Balance, March 1, 2012	$1,230
Total credits (from purchases journal)	6,230
Total debits	
(from cash payments journal)	(5,050)
Balance, March 31, 2012	$2,410

NetSolutions
Accounts Payable Creditor Balances
March 31, 2012

Donnelly Supplies	$1,450
Grayco Supplies	0
Howard Supplies	960
Jewett Business Systems	0
Total	$2,410

Equal credit balances

Example Exercise 5-4 Accounts Payable Subsidiary Ledger

OBJ. 2

The debits and credits from two transactions are presented in the following creditor's (supplier's) account:

NAME *Lassiter Services Inc.*
ADDRESS *301 St. Bonaventure Ave.*

Date	Item	Post. Ref.	Debit	Credit	Balance
Aug. 1	Balance				320
12	Invoice No. 101	CP36	200		120
22	Invoice No. 106	P16		140	260

Describe each transaction and the source of each posting.

Follow My Example 5-4

Aug. 12. Paid $200 to Lassiter Services Inc. on account (Invoice No. 101). Amount posted from page 36 of the cash payments journal.
22. Purchased $140 of services on account from Lassiter Services Inc. itemized on Invoice No. 106. Amount posted from page 16 of the purchases journal.

Practice Exercises: **PE 5-4A, PE 5-4B**

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OBJ. 3 Define and illustrate the use of a computerized accounting system.

Computerized Accounting Systems

Computerized accounting systems are widely used by even the smallest of companies. Computerized accounting systems have the following three main advantages over manual systems:

1. Computerized systems simplify the record-keeping process by recording transactions in electronic forms and, at the same time, posting them electronically to general and subsidiary ledger accounts.
2. Computerized systems are generally more accurate than manual systems.
3. Computerized systems provide management with current account balance information to support decision making, since account balances are posted as the transactions occur.

The popular QuickBooks accounting software for small- to medium-sized businesses is used to illustrate a computerized accounting system for **NetSolutions**. To simplify, the illustration is limited to transactions involving revenue earned on account and the subsequent recording of cash collections. Exhibit 7 illustrates the use of QuickBooks for NetSolutions to record transactions as follows:

BusinessConnection

ACCOUNTING SYSTEMS AND PROFIT MEASUREMENT

A Greek restaurant owner in Canada had his own system of accounting. He kept his accounts payable in a cigar box on the left-hand side of his cash register, his daily cash returns in the cash register, and his receipts for paid bills in another cigar box on the right. A truly "manual" system.

When his youngest son graduated as an accountant, he was appalled by his father's primitive methods. "I don't know how you can run a business that way," he said. "How do you know what your profits are?"

"Well, son," the father replied, "when I got off the boat from Greece, I had nothing but the pants I was wearing. Today, your brother is a doctor. You are an accountant. Your sister is a speech therapist. Your mother and I have a nice car, a city house, and a country home. We have a good business, and everything is paid for. . . ."

"So, you add all that together, subtract the pants, and there's your profit!"

Large companies have their accounting systems integrated within the automated business systems of the firm. Such integrated software is termed ERP, or enterprise resource planning.

Step 1. Record fees by completing an electronic invoice form.
Sales transactions are entered onto the computer screen using an electronic invoice form. The electronic form appears like a paper form with spaces, or fields, to input transaction data. The data spaces may have pull-down lists to ease data entry. After the form is completed, it is printed out and mailed, or e-mailed, to the customer.
To illustrate, on March 2, NetSolutions earned $2,200 on account from Accessories By Claire. As shown in Exhibit 7, Invoice No. 615 was created using an electronic form. Upon submitting the invoice form, QuickBooks automatically posts a $2,200 debit to the Accessories By Claire customer account and a credit to Fees Earned. An invoice is either e-mailed or printed for mailing to Accessories By Claire.

Step 2. Record collection of payment by completing a "receive payment" form.
Upon collection from the customer, a "receive payment" electronic form is opened and completed. As with the "invoice form," data are input into the various spaces directly or by using pull-down lists.
To illustrate, a $2,200 payment was collected from Accessories By Claire on March 28. As shown in Exhibit 7, the $2,200 was applied to Invoice No. 615, as shown by the check mark (✓) next to the March 2 date at the bottom of the form. As shown at the bottom of the form, the March 27 invoice of $3,000 remains uncollected. When the screen is completed, a debit of $2,200 is automatically posted to the cash account, and a credit for $2,200 is posted to the Accessories By Claire account. This causes the balance of the Accessories By Claire account to be reduced from $5,200 to $3,000.

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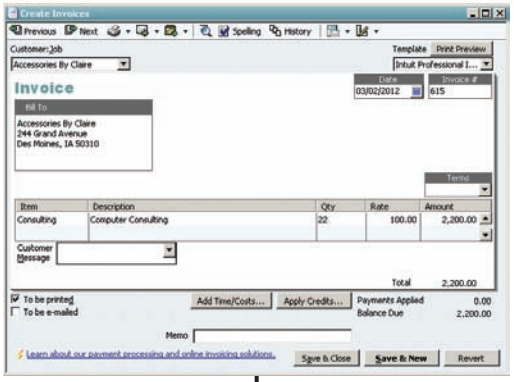
EXHIBIT 7 Revenue and Cash Receipts in QuickBooks

1. **Record fees by completing an electronic invoice form.**



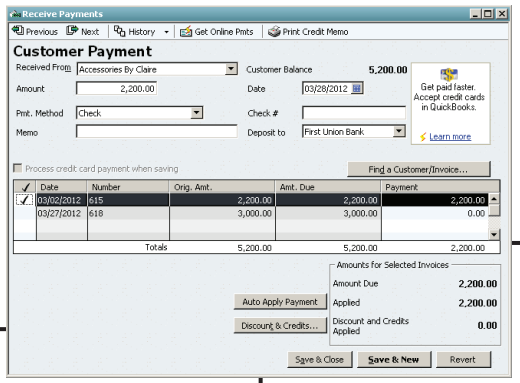
Journal Entry Equivalent

	Dr.	Cr.
Accounts Receivable—Accessories By Claire	2,200	
Fees Earned		2,200

Send invoice to customer.

Receive payment.

2. **Record collection of payment by completing a "receive payment" form.**



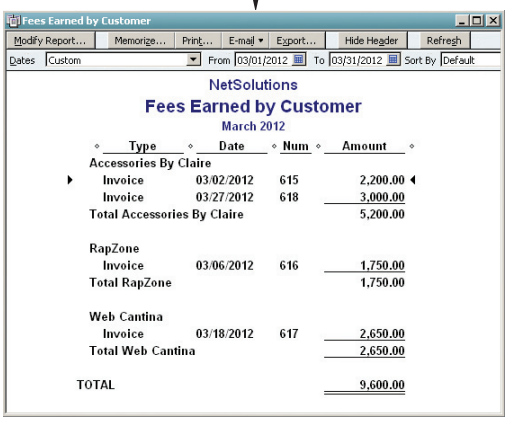
Journal Entry Equivalent

	Dr.	Cr.
Cash	2,200	
Accounts Receivable—Accessories By Claire		2,200

3. **Prepare reports.**

Accounts Receivable Subsidiary Ledger
Modify Report... Memorize... Print... E-mail Export... Hide Header Collap
Dates Custom From 03/31/2012 To 03/31/2012 Columns
NetSolutions
Accounts Receivable Subsidiary Ledger
March 31, 2012
Mar 31, 12
Accessories By Claire 3,000.00
Web Cantina 2,650.00
TOTAL 5,650.00

Cash Receipts
Modify Report... Memorize... Print... E-mail Export... Hide Header Refresh
Dates Custom From 03/01/2012 To 03/31/2012 Total By Total only
NetSolutions
Cash Receipts
March 2012
Type Date Name Paid Amount
Mar 12
Sales Receipt 03/01/2012 Rental Customer 400.00
Payment 03/19/2012 Web Cantina 3,400.00
Payment 03/28/2012 Accessories By Claire 2,200.00
Payment 03/30/2012 RapZone 1,750.00
Mar 12 7,750.00



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Step 3. Prepare reports.
At any time, managers may request reports from the software. Three such reports include the following:

1. "Accounts Receivable Subsidiary Ledger" lists as of a specific date the accounts receivable balances by customer.
To illustrate, the Accounts Receivable Subsidiary Ledger report shown in Exhibit 7 for NetSolutions was generated as of March 31, 2012. The total of the balances of the Accounts Receivable Subsidiary Ledger report of $5,650 agrees with the accounts receivable subsidiary balance total we illustrated using a manual system for NetSolutions on page 214.

2. "Fees Earned by Customer" lists revenue by customer for the month. It is created from the electronic invoice form used in step 1.
To illustrate, the Fees Earned by Customer report shown in Exhibit 7 for NetSolutions is for the month of March 2012. The total fees earned by customer of $9,600 agree with the total of the revenue journal we illustrated using a manual system for NetSolutions in Exhibits 2 and 3.

3. *"Cash Receipts"* lists the cash receipts during the month.
To illustrate, the Cash Receipts report shown in Exhibit 7 for NetSolutions is for the month of March 2012. The total cash receipts of $7,750 agree with the total of the Cash Dr. column of the cash receipts journal we illustrated using a manual system for NetSolutions in Exhibit 4.

The computer does not allow certain journalizing errors. For example, a computerized accounting system will not process a transaction unless the total debits for the transaction equal the total credits for a transaction. Instead, an error screen will notify the user that the transaction data must be corrected. Likewise, the computer will not make posting or mathematical errors.

BusinessConnection

TURBOTAX

Intuit sells TurboTax®, one of the most popular tax preparation software products for individuals. Using this product, the tax return is prepared using electronic tax forms. Thus, the familiar Form 1040 is presented as an electronic form with data-entry fields provided for the various line items. The advantage of this approach is that all the arithmetic and linking between forms is done automatically. A change in one field automatically updates all other linked fields. Thus, no more erasure.

In this section, revenue and cash receipt transactions are illustrated for NetSolutions using QuickBooks accounting software. Similar illustrations could be provided for purchases and cash payment transactions. A complete illustration of a computerized accounting system is beyond the scope of this text. However, this chapter provides a solid foundation for applying accounting system concepts in either a manual or a computerized system.

Integrity, Objectivity, and Ethics in Business

ONLINE FRAUD

Fraud accounted for over $3.3 billion in e-commerce losses in 2009, or approximately 1.2% of all online revenue. As a result, online retailers are using address verification and credit card security codes as additional security measures. Address verification matches the customer's address to the address on file with the credit card company, while the security code is the additional four-digit code designed to reduce fictitious credit card transactions.

Source: 11th Annual CyberSource fraud survey, *CyberSource*, November 19, 2009.

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E-Commerce

OBJ. 4 Describe the basic features of e-commerce.

The U.S. Census Bureau indicates that e-commerce sales are over $130 billion in retail sales. This represents over 3% of all retail sales.[1] Using the Internet to perform business transactions is termed **e-commerce.** When transactions are between a company and a consumer, it is termed B2C (business-to-consumer) e-commerce. Examples of companies engaged in B2C e-commerce include Amazon.com, priceline.com Incorporated, and Dell Inc.

The B2C business allows consumers to shop and receive goods at home, rather than going to the store. For example, Whirlpool Corporation allows consumers to use its Web site to order appliances, selecting color and other features. After paying with a credit card, customers can receive delivery of the appliance from the Whirlpool factory.

When transactions are conducted between two companies, it is termed B2B (business-to-business) e-commerce. Examples of companies engaged in B2B e-commerce include Cisco Systems, Inc., an Internet equipment manufacturer, and Bristol-Myers Squibb Company (BMS), a pharmaceutical company. BMS, for example, uses e-commerce to purchase supplies and equipment from its suppliers. E-commerce streamlines purchases and payments by automating transactions and eliminating paperwork. BMS claims over $90 million in savings by placing its purchase/payment cycle on the Internet.

A new trend is toward application service provider (ASP) software solutions whereby the accounting system is managed and distributed over the Internet by a third party. Under this model, the software is "rented," while analysis, design, and implementation are largely provided by the ASP vendor.

The Internet creates opportunities for improving the speed and efficiency of transactions. Many companies are realizing these benefits of using e-commerce as illustrated above. Three additional areas where the Internet is being used for business purposes are as follows:

1. **Supply chain management (SCM):** Internet applications to plan and coordinate suppliers.
2. **Customer relationship management (CRM):** Internet applications to plan and coordinate marketing and sales effort.
3. **Product life-cycle management (PLM):** Internet applications to plan and coordinate the product development and design process.

E-commerce also provides opportunities for faster business processes that operate at lower costs. New Internet applications are continually being introduced as the Internet develops into a preferred method of conducting business.

Financial Analysis and Interpretation: Segment Analysis

OBJ. 5 Use segment analysis in evaluating the operating performance of a company.

Accounting systems often use computers to collect, classify, summarize, and report financial and operating information in a variety of ways. One way is to report revenue earned by different segments of business. Businesses may be segmented by region, by product or service, or by type of customer. Segment revenues are determined from the invoice data that are entered into the accounting system.

For example, Intuit Inc. uses invoice data from the accounting system to determine the amount of revenue earned by different products and services. Segment analysis uses horizontal and vertical comparisons to analyze the contributions of various segments to the total operating performance of a company. To illustrate, selected product and service segment revenue information from the notes to Intuit's financial statements for the fiscal years ending July 31, 2009 and 2008, is presented on the following page.

1 Estimated Quarterly U.S. Retail Sales: Total and E-commerce, U.S. Census Bureau, November 18, 2009.

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Segment	2009 (in thousands)	2008 (in thousands)
Financial Management Solutions	$ 578,801	$ 592,106
Employee Management Solutions	364,831	336,880
Payments Solutions	290,974	253,560
Consumer Tax	996,413	929,429
Accounting Professionals	351,747	326,723
Financial Institutions	311,105	298,540
Other Businesses	288,666	333,736
Total revenues	$3,182,537	$3,070,974

This segment information can be used to perform horizontal analysis using 2008 as the base year as follows:

Segment	2009 (in thousands)	2008 (in thousands)	Increase (Decrease) Amount	Increase (Decrease) Percent
Financial Management Solutions	$ 578,801	$ 592,106	$ (13,305)	(2.2)%
Employee Management Solutions	364,831	336,880	27,951	8.3
Payments Solutions	290,974	253,560	37,414	14.8
Consumer Tax	996,413	929,429	66,984	7.2
Accounting Professionals	351,747	326,723	25,024	7.7
Financial Institutions	311,105	298,540	12,565	4.2
Other Businesses	288,666	333,736	(45,070)	(13.5)
Total revenues	$3,182,537	$3,070,974	$111,563	3.6

Intuit Inc. increased total revenue by 3.6% from 2008 to 2009. This increase came from strong revenue gains in the Employee Management Solutions, Payments Solutions, Consumer Tax, and Accounting Professionals segments combined with revenue losses in the Financial Management Solutions and Other Businesses segments. The Payments Solutions segment had the largest revenue increase from 2008 to 2009, at 14.8%.

In addition, vertical analysis could be performed on the segment disclosures as follows:

Segment	2009 Amount (in thousands)	2009 Percent	2008 Amount (in thousands)	2008 Percent
Financial Management Solutions	$ 578,801	18.2%	$ 592,106	19.3%
Employee Management Solutions	364,831	11.5	336,880	11.0
Payments Solutions	290,974	9.1	253,560	8.3
Consumer Tax	996,413	31.3	929,429	30.3
Accounting Professionals	351,747	11.1	326,723	10.6
Financial Institutions	311,105	9.8	298,540	9.7
Other Businesses	288,666	9.1	333,736	10.9
Total revenues	$3,182,537	100.0%*	$3,070,974	100.0%*

*Percentages do not add exactly to 100% due to rounding.

The preceding analysis shows that revenue in the Financial Management Solutions and Other Businesses segments declined as a percent of total revenues from 2008 to 2009. The remaining segments all increased as a percent of total revenues from 2008 to 2009.

Both analyses indicate that Intuit's second largest business segment, the Financial Management Solutions segment, is declining. This segment consists of Quicken and Quickbooks products. However, the remaining segments are more than compensating for the revenue decline. For example, Intuit's largest segment, Consumer Tax, is still growing with such products as TurboTax.

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Example Exercise 5-5 Segment Analysis

OBJ. 5

Morse Company does business in two regional segments: East and West. The following annual revenue information was determined from the accounting system's invoice information:

Segment	2012	2011
East	$25,000	$20,000
West	50,000	60,000
Total revenues	$75,000	$80,000

Prepare horizontal and vertical analyses of the segments.

Follow My Example 5-5

Horizontal analysis:

			Increase (Decrease)	
Segment	2012	2011	Amount	Percent
East	$25,000	$20,000	$ 5,000	25.0%
West	50,000	60,000	(10,000)	(16.7)
Total revenues	$75,000	$80,000	$ (5,000)	(6.3)

Vertical analysis:

	2012		2011	
Segment	Amount	Percent	Amount	Percent
East	$25,000	33.3%	$20,000	25.0%
West	50,000	66.7	60,000	75.0
Total revenues	$75,000	100.0%	$80,000	100.0%

Practice Exercises: PE 5-5A, PE 5-5B

At a Glance 5

OBJ. 1

Define and describe an accounting system.

Key Points An accounting system is the methods and procedures for collecting, classifying, summarizing, and reporting a business's financial information. The three steps through which an accounting system evolves are: (1) analysis of information needs, (2) design of the system, and (3) implementation of the system design.

Learning Outcomes	Example Exercises	Practice Exercises
• Define an accounting system.		
• Describe the three steps for designing an accounting system: (1) analysis, (2) design, and (3) implementation.		

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OBJ. 2 Journalize and post transactions in a manual accounting system that uses subsidiary ledgers and special journals.

Key Points Subsidiary ledgers may be used to maintain separate records for customers and creditors (vendors). A controlling account in the general ledger summarizes the subsidiary ledger accounts. The sum of the subsidiary ledger account balances must agree with the balance in the related controlling account.

Learning Outcomes	Example Exercises	Practice Exercises
• Prepare a revenue journal and post services provided on account to individual customer accounts and the column total to the corresponding general ledger accounts.	EE5-1	PE5-1A, 5-1B
• Prepare a cash receipts journal and post collections on account to individual customer accounts. Post Other Accounts column entries individually and special column totals to the corresponding general ledger accounts.	EE5-2	PE5-2A, 5-2B
• Prepare a purchases journal and post amounts owed to individual creditor accounts. Post Other Accounts column entries individually and special column totals to the corresponding general ledger accounts.	EE5-3	PE5-3A, 5-3B
• Prepare a cash payments journal and post the amounts paid to individual creditor accounts. Post Other Accounts column entries individually and special column totals to the corresponding general ledger accounts.	EE5-4	PE5-4A, 5-4B

OBJ. 3 Describe and illustrate the use of a computerized accounting system.

Key Points Computerized accounting systems are similar to manual systems. The main advantages of a computerized accounting system are the simultaneous recording and posting of transactions, high degree of accuracy, and timeliness of reporting.

Learning Outcomes	Example Exercises	Practice Exercises
• Differentiate between a manual and a computerized accounting system. • Illustrate revenue and cash receipts transactions using QuickBooks.		

OBJ. 4 Describe the basic features of e-commerce.

Key Points Using the Internet to perform business transactions is termed e-commerce. B2C e-commerce involves Internet transactions between a business and consumer, while B2B e-commerce involves Internet transactions between businesses. More elaborate e-commerce involves planning and coordinating suppliers, customers, and product design.

Learning Outcomes	Example Exercises	Practice Exercises
• Define e-commerce and describe the major trends in e-commerce.		

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OBJ. 5

Use segment analysis in evaluating the operating performance of a company.

Key Points Businesses may be segmented by region, by product or service, or by type of customer. Segment revenues can be analyzed using horizontal and vertical analyses. Such analyses are useful to management for evaluating the causes of business performance.

Learning Outcomes	Example Exercises	Practice Exercises
• Prepare horizontal and vertical analyses for business segments.	EE5-5	PE5-5A, 5-5B

Key Terms

accounting system (206)
accounts payable subsidiary ledger (207)
accounts receivable subsidiary ledger (207)
cash payments journal (217)
cash receipts journal (212)
controlling account (207)
e-commerce (223)
general journal (208)
general ledger (207)
internal controls (207)
invoice (209)
purchases journal (214)
revenue journal (209)
special journals (207)
subsidiary ledger (207)

Illustrative Problem

Selected transactions of O'Malley Co. for the month of May are as follows:

a.	May 1.	Issued Check No. 1001 in payment of rent for May, $1,200.
b.	2.	Purchased office supplies on account from McMillan Co., $3,600.
c.	4.	Issued Check No. 1003 in payment of freight charges on the supplies purchased on May 2, $320.
d.	8.	Provided services on account to Waller Co., Invoice No. 51, $4,500.
e.	9.	Issued Check No. 1005 for office supplies purchased, $450.
f.	10.	Received cash for office supplies sold to employees at cost, $120.
g.	11.	Purchased office equipment on account from Fender Office Products, $15,000.
h.	12.	Issued Check No. 1010 in payment of the supplies purchased from McMillan Co. on May 2, $3,600.
i.	16.	Provided services on account to Riese Co., Invoice No. 58, $8,000.
j.	18.	Received $4,500 from Waller Co. in payment of May 8 invoice.
k.	20.	Invested additional cash in the business, $10,000.
l.	25.	Provided services for cash, $15,900.
m.	30.	Issued Check No. 1040 for withdrawal of cash for personal use, $1,000.
n.	30.	Issued Check No. 1041 in payment of electricity and water invoices, $690.

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o. May 30. Issued Check No. 1042 in payment of office and sales salaries for May, $15,800.

p. 31. Journalized adjusting entries from the work sheet prepared for the fiscal year ended May 31.

O'Malley Co. maintains a revenue journal, a cash receipts journal, a purchases journal, a cash payments journal, and a general journal. In addition, accounts receivable and accounts payable subsidiary ledgers are used.

Instructions

1. Indicate the journal in which each of the preceding transactions, (a) through (p), would be recorded.
2. Indicate whether an account in the accounts receivable or accounts payable subsidiary ledgers would be affected for each of the preceding transactions.
3. Journalize transactions (b), (c), (d), (h), and (j) in the appropriate journals.

Solution

1.	Journal	2.	Subsidiary Ledger
a.	Cash payments journal		
b.	Purchases journal		Accounts payable ledger
c.	Cash payments journal		
d.	Revenue journal		Accounts receivable ledger
e.	Cash payments journal		
f.	Cash receipts journal		
g.	Purchases journal		Accounts payable ledger
h.	Cash payments journal		Accounts payable ledger
i.	Revenue journal		Accounts receivable ledger
j.	Cash receipts journal		Accounts receivable ledger
k.	Cash receipts journal		
l.	Cash receipts journal		
m.	Cash payments journal		
n.	Cash payments journal		
o.	Cash payments journal		
p.	General journal		

3.

Transaction (b):

Purchases Journal

Date		Account Credited	Post. Ref.	Accounts Payable Cr.	Office Supplies Dr.	Other Accounts Dr.	Post. Ref.	Amount
May	2	McMillan Co.		3,600	3,600			

Transactions (c) and (h):

Cash Payments Journal

Date		Ck. No.	Account Debited	Post. Ref.	Other Accounts Dr.	Accounts Payable Dr.	Cash Cr.
May	4	1003	Freight Expense		320		320
	12	1010	McMillan Co.			3,600	3,600

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Transaction (d):

Revenue Journal

Date	Invoice No.	Account Debited	Post. Ref.	Accts. Rec. Dr. Fees Earned Cr.
May 8	51	Waller Co.		4,500

Transaction (j):

Cash Receipts Journal

Date	Account Credited	Post. Ref.	Other Accounts Cr.	Accounts Receivable Cr.	Cash Dr.
May 18	Waller Co.			4,500	4,500

Discussion Questions

1. Why would a company maintain separate accounts receivable ledgers for each customer, as opposed to maintaining a single accounts receivable ledger for all customers?
2. What are the major advantages of the use of special journals?
3. In recording 400 fees earned on account during a single month, how many times will it be necessary to write Fees Earned (a) if each transaction, including fees earned, is recorded individually in a two-column general journal; (b) if each transaction for fees earned is recorded in a revenue journal?
4. How many postings to Fees Earned for the month would be needed in Discussion Question 3 if the procedure described in (a) had been used; if the procedure described in (b) had been used?
5. During the current month, the following errors occurred in recording transactions in the purchases journal or in posting from it.
   a. An invoice for $1,875 of supplies from Kelly Co. was recorded as having been received from Kelley Co., another supplier.
   b. A credit of $420 to Blackstone Company was posted as $240 in the subsidiary ledger.
   c. An invoice for equipment of $4,800 was recorded as $4,000.
   d. The Accounts Payable column of the purchases journal was overstated by $3,600.

   How will each error come to the bookkeeper's attention, other than by chance discovery?
6. Assuming the use of a two-column general journal, a purchases journal, and a cash payments journal as illustrated in this chapter, indicate the journal in which each of the following transactions should be recorded:
   a. Purchase of office supplies on account.
   b. Purchase of supplies for cash.
   c. Purchase of store equipment on account.
   d. Payment of cash on account to creditor.
   e. Payment of cash for office supplies.
7. What is an electronic form, and how is it used in a computerized accounting system?
8. Do computerized systems use controlling accounts to verify the accuracy of the subsidiary accounts?
9. What happens to the special journal in a computerized accounting system that uses electronic forms?
10. How would e-commerce improve the revenue/collection cycle?

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Practice Exercises

Learning Objectives | Example Exercises

OBJ. 2 EE 5-1 p. 211

PE 5-1A Revenue journal

The following revenue transactions occurred during October:

Oct. 7. Issued Invoice No. 121 to Darcy Co. for services provided on account, $320.
17. Issued Invoice No. 122 to Triple A Inc. for services provided on account, $470.
21. Issued Invoice No. 123 to Whaley Co. for services provided on account, $530.

Record these three transactions into the following revenue journal format:

REVENUE JOURNAL

Date	Invoice No.	Account Debited	Post. Ref.	Accts. Rec. Dr. Fees Earned Cr.

OBJ. 2 EE 5-1 p. 211

PE 5-1B Revenue journal

The following revenue transactions occurred during May:

May 6. Issued Invoice No. 78 to Lemon Co. for services provided on account, $1,240.
9. Issued Invoice No. 79 to Hitchcock Inc. for services provided on account, $3,420.
19. Issued Invoice No. 80 to Conrad Inc. for services provided on account, $1,470.

Record these three transactions into the following revenue journal format:

REVENUE JOURNAL

Date	Invoice No.	Account Debited	Post. Ref.	Accts. Rec. Dr. Fees Earned Cr.

OBJ. 2 EE 5-2 p. 214

PE 5-2A Accounts receivable subsidiary ledger

The debits and credits from two transactions are presented in the following customer account:

NAME *Signal Communications Inc.*
ADDRESS *76 Oak Ridge Rd.*

Date	Item	Post. Ref.	Debit	Credit	Balance
June 1	Balance	✓			280
20	Invoice 579	CR106		95	185
28	Invoice 527	R92	75		260

Describe each transaction and the source of each posting.

OBJ. 2 EE 5-2 p. 214

PE 5-2B Accounts receivable subsidiary ledger

The debits and credits from two transactions are presented in the following customer account:

NAME *Mobility Products Inc.*
ADDRESS *46 W. Main St.*

Date	Item	Post. Ref.	Debit	Credit	Balance
Sept. 1	Balance	✓			1,200
8	Invoice 119	R24	840		2,040
17	Invoice 106	CR46		590	1,450

Describe each transaction and the source of each posting.

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Learning Objectives | Example Exercises

OBJ. 2 EE 5-3 p. 216

PE 5-3A Purchases journal

The following purchase transactions occurred during August for Elegance Catering Service:

Aug. 11. Purchased party supplies for $390, on account from Party Zone Supplies Inc.
14. Purchased party supplies for $290, on account from Fun 4 All Supplies Inc.
29. Purchased office furniture for $3,560, on account from Office Space Inc.

Record these transactions in the following purchases journal format:

PURCHASES JOURNAL

Date	Accounts Credited	Post. Ref.	Accounts Payable Cr.	Office Supplies Dr.	Other Account Dr.	Post. Ref.	Amount

OBJ. 2 EE 5-3 p. 216

PE 5-3B Purchases journal

The following purchase transactions occurred during December for Rehoboth Inc.:

Dec. 6. Purchased office supplies for $415, on account from Supply Hut Inc.
14. Purchased office equipment for $1,950, on account from Zell Computer Inc.
19. Purchased office supplies for $450, on account from Supply Hut Inc.

Record these transactions in the following purchases journal format:

PURCHASES JOURNAL

Date	Accounts Credited	Post. Ref.	Accounts Payable Cr.	Office Supplies Dr.	Other Account Dr.	Post. Ref.	Amount

OBJ. 2 EE 5-4 p. 219

PE 5-4A Accounts payable subsidiary ledger

The debits and credits from two transactions are presented in the following supplier's (creditor's) account:

NAME *Newton Computer Services Inc.*
ADDRESS *2199 Technology Place*

Date	Item	Post. Ref.	Debit	Credit	Balance
Nov. 1	Balance				9,400
11	Invoice 75	P8		2,790	12,190
21	Invoice 43	CP46	6,550		5,640

Describe each transaction and the source of each posting.

OBJ. 2 EE 5-4 p. 219

PE 5-4B Accounts payable subsidiary ledger

The debits and credits from two transactions are presented in the following supplier's (creditor's) account:

NAME *Daisy Inc.*
ADDRESS *5000 Grand Ave.*

Date	Item	Post. Ref.	Debit	Credit	Balance
Feb. 1	Balance				92
11	Invoice 122	CP71	79		13
20	Invoice 139	P55		57	70

Describe each transaction and the source of each posting.

OBJ. 5 EE 5-5 p. 225

PE 5-5A Segment analysis

F·A·I

Harrow Company does business in two customer segments, Retail and Wholesale. The following annual revenue information was determined from the accounting system's invoice information:

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Learning Objectives *Example Exercises*

	2012	2011
Retail	$ 80,000	$ 75,000
Wholesale	120,000	140,000
Total revenue	$200,000	$215,000

Prepare a horizontal and vertical analysis of the segments. Round to one decimal place.

OBJ. 5 EE 5-5 p. 225

PE 5-5B Segment analysis

Outdoor Country, Inc. does business in two product segments, Camping and Fishing. The following annual revenue information was determined from the accounting system's invoice information:

	2012	2011
Camping	$250,000	$280,000
Fishing	100,000	60,000
Total revenue	$350,000	$340,000

Prepare a horizontal and vertical analysis of the segments. Round to one decimal place.

Exercises

OBJ. 2

EX 5-1 Identify postings from revenue journal

Using the following revenue journal for Gamma Services Inc., identify each of the posting references, indicated by a letter, as representing (1) posting to general ledger accounts or (2) posting to subsidiary ledger accounts.

REVENUE JOURNAL

Date	Invoice No.	Account Debited	Post. Ref.	Accounts Rec. Dr. Fees Earned Cr.
2012				
June 1	112	Hazmat Safety Co.	(a)	$2,625
10	113	Masco Co.	(b)	980
18	114	Eco-Systems	(c)	1,600
27	115	Nero Enterprises	(d)	1,240
30				$6,445
				(e)

OBJ. 2

✔ d. Total accounts receivable, $6,975

EX 5-2 Accounts receivable ledger

Based on the data presented in Exercise 5-1, assume that the beginning balances for the customer accounts were zero, except for Nero Enterprises, which had a $530 beginning balance. In addition, there were no collections during the period.

a. Set up a T account for Accounts Receivable and T accounts for the four accounts needed in the customer ledger.

b. Post to the T accounts.

c. Determine the balance in the accounts.

d. Prepare a listing of the accounts receivable subsidiary ledger account balances as of June 30, 2012.

OBJ. 2

EX 5-3 Identify journals

Assuming the use of a two-column (all-purpose) general journal, a revenue journal, and a cash receipts journal as illustrated in this chapter, indicate the journal in which each of the following transactions should be recorded:

a. Sale of office supplies on account, at cost, to a neighboring business.

b. Receipt of cash from sale of office equipment.

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c. Closing of drawing account at the end of the year.
d. Providing services for cash.
e. Receipt of cash refund from overpayment of taxes.
f. Adjustment to record accrued salaries at the end of the year.
g. Receipt of cash for rent.
h. Receipt of cash on account from a customer.
i. Providing services on account.
j. Investment of additional cash in the business by the owner.

OBJ. 2

EX 5-4 Identify journals

Assuming the use of a two-column (all-purpose) general journal, a purchases journal, and a cash payments journal as illustrated in this chapter, indicate the journal in which each of the following transactions should be recorded:

a. Purchase of an office computer on account.
b. Purchase of services on account.
c. Purchase of office supplies on account.
d. Adjustment to prepaid rent at the end of the month.
e. Adjustment to record accrued salaries at the end of the period.
f. Purchase of office supplies for cash.
g. Advance payment of a one-year fire insurance policy on the office.
h. Purchase of office equipment for cash.
i. Adjustment to prepaid insurance at the end of the month.
j. Adjustment to record depreciation at the end of the month.
k. Payment of six months' rent in advance.

OBJ. 2

EX 5-5 Identify transactions in accounts receivable ledger

The debits and credits from three related transactions are presented in the following customer's account taken from the accounts receivable subsidiary ledger.

NAME *Casey By Design*
ADDRESS *1319 Elm Street*

Date	Item	Post. Ref.	Debit	Credit	Balance
2012					
Feb. 3		R44	740		740
6		J11		80	660
16		CR81		660	—

Describe each transaction, and identify the source of each posting.

OBJ. 2

EX 5-6 Prepare journal entries in a revenue journal

Madison Services Company had the following transactions during the month of April:

Apr. 2. Issued Invoice No. 201 to Triple Play Corp. for services rendered on account, $345.
3. Issued Invoice No. 202 to Mid States Inc. for services rendered on account, $410.
14. Issued Invoice No. 203 to Triple Play Corp. for services rendered on account, $110.
25. Issued Invoice No. 204 to Parker Co. for services rendered on account, $830.
28. Collected Invoice No. 201 from Triple Play Corp.

a. Prepare a revenue journal with the following headings to record the April revenue transactions for Madison Services Company.

(*Continued*)

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REVENUE JOURNAL

Date	Invoice No.	Account Debited	Post. Ref.	Accts. Rec. Dr. Fees Earned Cr.

b. What is the total amount posted to the accounts receivable and fees earned accounts from the revenue journal for April?

c. What is the April 30 balance of the Triple Play Corp. customer account assuming a zero balance on April 1?

OBJ. 2, 3

EX 5-7 Posting a revenue journal

The revenue journal for Tech-Aid Consulting Inc. is shown below. The accounts receivable control account has a July 1, 2012, balance of $805 consisting of an amount due from Astro Star Co. There were no collections during July.

REVENUE JOURNAL Page *12*

Date	Invoice No.	Account Debited	Post. Ref.	Accts. Rec. Dr. Fees Earned Cr.
2012				
July 4	355	Borman Co.		1,960
9	356	Life Star Inc.		3,220
14	357	Astro Star Co.		1,490
22	359	Borman Co.		2,650
				9,320

a. Prepare a T account for the accounts receivable customer accounts.

b. Post the transactions from the revenue journal to the customer accounts, and determine their ending balances.

c. Prepare T accounts for the accounts receivable and fees earned accounts. Post control totals to the two accounts, and determine the ending balances.

d. Prepare a schedule of the customer account balances to verify the equality of the sum of the customer account balances and the accounts receivable account balance.

e. How might a computerized system differ from a revenue journal in recording revenue transactions?

OBJ. 2

✔ Accounts Receivable balance, May 31, $5,490

EX 5-8 Accounts receivable subsidiary ledger

The revenue and cash receipts journals for Amazon Productions Inc. are shown below. The accounts receivable control account has a May 1, 2012, balance of $3,910, consisting of an amount due from Bishop Studios Inc.

REVENUE JOURNAL Page *16*

Date	Invoice No.	Account Debited	Post. Ref.	Accts. Rec. Dr. Fees Earned Cr.
2012				
May 6	1	Chandler Broadcasting Co.	✓	1,250
14	2	Gold Coast Media Inc.	✓	5,700
22	3	Chandler Broadcasting Co.	✓	2,200
27	4	Bishop Studios Inc.	✓	1,250
28	5	Amber Communications Inc.	✓	2,040
30				12,440
				(12) (41)

CASH RECEIPTS JOURNAL Page *36*

Date	Account Credited	Post. Ref.	Fees Earned Cr.	Accts. Rec. Cr.	Cash Dr.
2012					
May 6	Bishop Studios Inc.	✓	—	3,910	3,910
11	Fees Earned		3,200		3,200
18	Chandler Broadcasting Co	✓	—	1,250	1,250
28	Gold Coast Media Inc.	✓	—	5,700	5,700
30			3,200	10,860	14,060
			(41)	(12)	(11)

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Prepare a listing of the accounts receivable subsidiary ledger account balances and verify that the total agrees with the ending balance of the accounts receivable account.

OBJ. 2

EX 5-9 Revenue and cash receipts journals

Transactions related to revenue and cash receipts completed by Main Line Inc. during the month of August 2012 are as follows:

Aug. 2. Issued Invoice No. 512 to Boston Co., $780.
4. Received cash from CMI Inc., on account, for $195.
8. Issued Invoice No. 513 to Gabriel Co., $275.
12. Issued Invoice No. 514 to Dockers Inc., $690.
19. Received cash from Dockers Inc., on account, $525.
22. Issued Invoice No. 515 to Electronic Central Inc., $150.
27. Received cash from Marshall Inc. for services provided, $115.
29. Received cash from Boston Co. for invoice of August 2.
31. Received cash from McCleary Co. for services provided, $65.

Prepare a single-column revenue journal and a cash receipts journal to record these transactions. Use the following column headings for the cash receipts journal: Fees Earned Cr., Accounts Receivable Cr., and Cash Dr. Place a check mark (✓) in the Post. Ref. column to indicate when the accounts receivable subsidiary ledger should be posted.

OBJ. 2

✔ Revenue journal total, $10,160

EX 5-10 Revenue and cash receipts journals

Essential Paris, Inc. has $2,290 in the December 1 balance of the accounts receivable account consisting of $940 from Chrystal Co. and $1,350 from Venus Co. Transactions related to revenue and cash receipts completed by Essential Paris, Inc. during the month of December 2012 are as follows:

Dec. 3. Issued Invoice No. 622 for services provided to Palace Corp., $1,920.
5. Received cash from Chrystal Co., on account, for $940.
8. Issued Invoice No. 623 for services provided to Sunstream Aviation Inc., $3,450.
12. Received cash from Venus Co., on account, for $1,350.
18. Issued Invoice No. 624 for services provided to Amex Services Inc., $2,600.
23. Received cash from Palace Corp. for Invoice No. 622.
28. Issued Invoice No. 625 to Venus Co., on account, for $2,190.
30. Received cash from Rogers Co. for services provided, $80.

a. Prepare a single-column revenue journal and a cash receipts journal to record these transactions. Use the following column headings for the cash receipts journal: Fees Earned Cr., Accounts Receivable Cr., and Cash Dr. Place a check mark (✓) in the Post. Ref. column to indicate when the accounts receivable subsidiary ledger should be posted.

b. Prepare a listing of the accounts receivable subsidiary ledger account balances and verify that the total of the accounts receivable subsidiary ledger equals the balance of the accounts receivable account on December 31, 2012.

c. Why does Essential Paris use a subsidiary ledger for accounts receivable?

OBJ. 2

EX 5-11 Identify postings from purchases journal

Using the following purchases journal, identify each of the posting references, indicated by a letter, as representing (1) a posting to a general ledger account, (2) a posting to a subsidiary ledger account, or (3) that no posting is required.

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PURCHASES JOURNAL — Page 49

Date	Account Credited	Post. Ref.	Accounts Payable Cr.	Store Supplies Dr.	Office Supplies Dr.	Other Accounts Dr.	Post. Ref.	Amount
2012								
Mar. 4	Arrow Supply Co.	(a)	4,000		4,000			
6	Coastal Equipment Co.	(b)	5,325			Warehouse Equipment	(c)	5,325
9	Thorton Products	(d)	1,875	1,600	275			
14	Office Warehouse	(e)	2,200			Office Equipment	(f)	2,200
20	Office Warehouse	(g)	6,000			Store Equipment	(h)	6,000
25	Monroe Supply Co.	(i)	2,740	2,740				
30			22,140	4,340	4,275			13,525
			(j)	(k)	(l)			(m)

OBJ. 2

EX 5-12 Identify postings from cash payments journal

Using the following cash payments journal, identify each of the posting references, indicated by a letter, as representing (1) a posting to a general ledger account, (2) a posting to a subsidiary ledger account, or (3) that no posting is required.

CASH PAYMENTS JOURNAL — Page 46

Date	Ck. No.	Account Debited	Post. Ref.	Other Accounts Dr.	Accounts Payable Dr.	Cash Cr.
2012						
Aug. 3	611	Energy Systems Co.	(a)		4,000	4,000
5	612	Utilities Expense	(b)	310		310
10	613	Prepaid Rent	(c)	3,200		3,200
16	614	Flowers to Go, Inc.	(d)		1,250	1,250
19	615	Advertising Expense	(e)	640		640
22	616	Office Equipment	(f)	3,600		3,600
25	617	Office Supplies	(g)	250		250
26	618	Echo Co.	(h)		5,500	5,500
31	619	Salaries Expense	(i)	1,750		1,750
31				9,750	10,750	20,500
				(j)	(k)	(l)

OBJ. 2

EX 5-13 Identify transactions in accounts payable ledger account

The debits and credits from three related transactions are presented in the following creditor's account taken from the accounts payable ledger.

NAME *Apex Performance Co.*
ADDRESS *101 W. Stratford Ave.*

Date	Item	Post. Ref.	Debit	Credit	Balance
2012					
Mar. 6		P44		12,000	12,000
11		J12	400		11,600
16		CP23	11,600		—

Describe each transaction, and identify the source of each posting.

OBJ. 2

EX 5-14 Prepare journal entries in a purchases journal

Sentry Security Company had the following transactions during the month of January:

Jan. 4. Purchased office supplies from Office Universe Inc. on account, $550.
9. Purchased office equipment on account from Tek Village, Inc., $2,300.
16. Purchased office supplies from Office Universe Inc. on account, $90.
21. Purchased office supplies from Paper-to-Go Inc. on account, $170.
27. Paid invoice on January 4 purchase from Office Universe Inc.

a. Prepare a purchases journal with the following headings to record the January purchase transactions for Sentry Security Company.

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PURCHASES JOURNAL

Date	Account Credited	Post. Ref.	Accts. Payable Cr.	Office Supplies Dr.	Other Accounts Dr.	Post. Ref.	Amount

b. What is the total amount posted to the accounts payable and office supplies accounts from the purchases journal for January?

c. What is the January 31 balance of the Office Universe Inc. creditor account assuming a zero balance on January 1?

OBJ. 2, 3

✔ d. Total, $4,215

EX 5-15 Posting a purchases journal

The purchases journal for Crystal View Window Cleaners Inc. is shown below. The accounts payable account has a January 1, 2012, balance of $365 of an amount due from Little Co. There were no payments made on creditor invoices during January.

PURCHASES JOURNAL Page *16*

Date	Account Credited	Post. Ref.	Accts. Payable Cr.	Cleaning Supplies Dr.	Other Accounts Dr.	Post. Ref.	Amount
2012							
Jan. 4	Kleen-Mate Supplies Inc.		570	570			
15	Little Co.		250	250			
19	Office Mate Inc.		2,700		Office Equipment		2,700
26	Kleen-Mate Supplies Inc.		330	330			
31			3,850	1,150			2,700

a. Prepare a T account for the accounts payable creditor accounts.

b. Post the transactions from the purchases journal to the creditor accounts, and determine their ending balances.

c. Prepare T accounts for the accounts payable control and cleaning supplies accounts. Post control totals to the two accounts, and determine their ending balances.

d. Prepare a schedule of the creditor account balances to verify the equality of the sum of the creditor account balances and the accounts payable account balance.

e. How might a computerized accounting system differ from the use of a purchases journal in recording purchase transactions?

OBJ. 2

✔ Accts. Pay., June 30, $15,860

EX 5-16 Accounts payable subsidiary ledger

The cash payments and purchases journals for Out of Eden Landscaping Co. are shown below. The accounts payable control account has a June 1, 2012, balance of $2,450, consisting of an amount owed to Augusta Sod Co.

CASH PAYMENTS JOURNAL Page *31*

Date	Ck. No.	Account Debited	Post. Ref.	Other Accounts Dr.	Accounts Payable Dr.	Cash Cr.
2012						
June 4	203	Augusta Sod Co	✓		2,450	2,450
5	204	Utilities Expense	54	410		410
15	205	Kopp Lumber Co.	✓		5,135	5,135
24	206	Schott's Fertilizer	✓		820	820
30				410	8,405	8,815
				(✓)	(21)	(11)

PURCHASES JOURNAL Page *22*

Date	Account Credited	Post. Ref.	Accounts Payable Cr.	Landscaping Supplies Dr.	Other Accounts Dr	Post. Ref.	Amount
2012							
June 3	Kopp Lumber Co.	✓	5,135	5,135			
7	Concrete Equipment Co.	✓	2,650		Equipment	18	2,650
14	Schott's Fertilizer	✓	820	820			
24	Augusta Sod Co.	✓	6,010	6,010			
29	Kopp Lumber Co.	✓	7,200	7,200			
30			21,815	19,165			2,650
			(21)	(14)			(✓)

(Continued)

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Prepare a schedule of the accounts payable subsidiary ledger balances, and determine that the total agrees with the ending balance of the accounts payable account.

OBJ. 2

✔ Purchases journal, Accts. Pay., Total, $815

EX 5-17 Purchases and cash payments journals

Transactions related to purchases and cash payments completed by Marion Cleaning Services Inc. during the month of August 2012 are as follows:

Aug. 1. Issued Check No. 57 to Liquid Klean Supplies Inc. in payment of account, $275.
3. Purchased cleaning supplies on account from Sani-Fresh Products Inc., $160.
8. Issued Check No. 58 to purchase equipment from Carson Equipment Sales, $2,400.
12. Purchased cleaning supplies on account from Porter Products Inc., $250.
15. Issued Check No. 59 to Abbott Laundry Service in payment of account, $120.
18. Purchased supplies on account from Liquid Klean Supplies Inc., $265.
20. Purchased laundry services from Abbott Laundry Service on account, $140.
26. Issued Check No. 60 to Sani-Fresh Products Inc. in payment of August 3 invoice.
31. Issued Check No. 61 in payment of salaries, $5,200.

Prepare a purchases journal and a cash payments journal to record these transactions. The forms of the journals are similar to those illustrated in the text. Place a check mark (✓) in the Post. Ref. column to indicate when the accounts payable subsidiary ledger should be posted. Marion Cleaning Services Inc. uses the following accounts:

Cash	11
Cleaning Supplies	14
Equipment	18
Accounts Payable	21
Salary Expense	51
Laundry Service Expense	53

OBJ. 2

EX 5-18 Purchases and cash payments journals

Happy Tails Inc. has a September 1 accounts payable balance of $525, which consists of $340 due Labradore Inc. and $185 due Meow Mart Inc. Transactions related to purchases and cash payments completed by Happy Tails Inc. during the month of September 2012 are as follows:

Sept. 4. Purchased pet supplies from Best Friend Supplies Inc. on account, $230.
6. Issued Check No. 345 to Labradore Inc. in payment of account, $340.
13. Purchased pet supplies from Poodle Pals Inc., $660.
18. Issued Check No. 346 to Meow Mart Inc. in payment of account, $185.
19. Purchased office equipment from Office Helper Inc. on account, $2,250.
23. Issued Check No. 347 to Best Friend Supplies Inc. in payment of account from purchase made on September 4.
27. Purchased pet supplies from Meow Mart Inc. on account, $350.
30. Issued Check No. 348 to Sanders Inc. for cleaning expenses, $50.

a. Prepare a purchases journal and a cash payments journal to record these transactions. The forms of the journals are similar to those used in the text. Place a check mark (✓) in the Post. Ref. column to indicate when the accounts payable subsidiary ledger should be posted. Happy Tails Inc. uses the following accounts:

Cash	11
Office Equipment	13
Pet Supplies	14
Accounts Payable	21
Cleaning Expense	54

b. Prepare a listing of accounts payable subsidiary ledger balances on September 30, 2012. Verify that the total of the accounts payable subsidiary ledger balances equals the balance of the accounts payable control account on September 30, 2012.

c. Why does Happy Tails use a subsidiary ledger for accounts payable?

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OBJ. 2

EX 5-19 Error in accounts payable ledger and accounts payable subsidiary ledger

After Gold Rush Assay Services Inc. had completed all postings for March in the current year (2012), the sum of the balances in the following accounts payable ledger did not agree with the $37,900 balance of the controlling account in the general ledger.

NAME *C. D. Greer and Son*
ADDRESS *972 S. Tenth Street*

Date	Item	Post. Ref.	Debit	Credit	Balance
2012					
Mar. 17		P30		3,750	3,750
27		P31		12,000	15,750

NAME *Chester Chemical Supplies Inc.*
ADDRESS *1170 Mattis Avenue*

Date	Item	Post. Ref.	Debit	Credit	Balance
2012					
Mar. 1	Balance	✓			8,300
9		P30		6,200	14,000
12		J7	300		13,700
20		CP23	5,800		7,900

NAME *Cutler and Powell*
ADDRESS *717 Elm Street*

Date	Item	Post. Ref.	Debit	Credit	Balance
2012					
Mar. 1	Balance	✓			6,100
18		CP23	6,100		—
29		P31		7,800	7,800

NAME *Montana Minerals Co.*
ADDRESS *1240 W. Main Street*

Date	Item	Post. Ref.	Debit	Credit	Balance
2012					
Mar. 1	Balance	✓			4,750
10		CP22	4,750		—
17		P30		3,700	3,700
25		J7	900		1,800

NAME *Valley Power*
ADDRESS *915 E. Walnut Street*

Date	Item	Post. Ref.	Debit	Credit	Balance
2012					
Mar. 5		P30		3,150	3,150

Assuming that the controlling account balance of $37,900 has been verified as correct, (a) determine the error(s) in the preceding accounts and (b) prepare a listing of accounts payable subsidiary ledger balances (from the corrected accounts payable subsidiary ledger).

OBJ. 2

EX 5-20 Identify postings from special journals

ViewPoint Consulting Company makes most of its sales and purchases on credit. It uses the five journals described in this chapter (revenue, cash receipts, purchases, cash payments, and general journals). Identify the journal most likely used in recording the postings for selected transactions indicated by letter in the T accounts on the following page:

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Cash			
a.	10,940	b.	6,500

Prepaid Rent			
		e.	1,200

Accounts Receivable			
c.	11,790	a.	10,940

Accounts Payable			
b.	6,500	d.	7,400

Office Supplies			
d.	7,400		

Fees Earned			
		c.	11,790

Rent Expense			
e.	1,200		

OBJ. 2

EX 5-21 Cash receipts journal

The following cash receipts journal headings have been suggested for a small service firm. List the errors you find in the headings.

CASH RECEIPTS JOURNAL — Page *12*

Date	Account Credited	Post. Ref.	Fees Earned Cr.	Accts. Rec. Cr.	Cash Cr.	Other Accounts Dr.

OBJ. 3

EX 5-22 Computerized accounting systems

Most computerized accounting systems use electronic forms to record transaction information, such as the invoice form illustrated at the top of Exhibit 7.

a. Identify the key input fields (spaces) in an electronic invoice form.

b. What accounts are posted from an electronic invoice form?

c. Why aren't special journal totals posted to control accounts at the end of the month in an electronic accounting system?

OBJ. 3, 4

EX 5-23 Computerized accounting systems and e-commerce

Apple Corporation's iTunes® provides digital products, such as music, video, and software, which can be downloaded to portable devices such as iPhone® and iPod®. Purchases made on iTunes are made with a credit card that is on file with the credit card processing company. Such transactions are considered cash transactions. Once the purchase is made, the consumer can download the requested digital product to their portable device for their enjoyment and the charge will show up on their credit card bill.

a. What kind of e-commerce application is described by Apple iTunes?

b. Assume you purchased 12 songs for $1 each on iTunes. Provide the journal entry generated by Apple's e-commerce application.

c. If a special journal were used, what type of special journal would be used to record this sales transaction?

d. If an electronic form were used, what type of electronic form would be used to record this sales transaction?

e. How might you expect revenues to be recorded for a B2C e-commerce transaction?

OBJ. 4

EX 5-24 E-commerce

For each of the following companies, determine if their e-commerce strategy is primarily business-to-consumer (B2C), business-to-business (B2B), or both. Use the Internet to investigate each company's site in conducting your research.

a. Amazon.com

b. Dell Inc.

c. Dupont

d. Intuit Inc.

e. L.L. Bean, Inc.

f. W.W. Grainger, Inc.

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OBJ. 5

EX 5-25 Segment revenue horizontal analysis

Starbucks Corporation reported the following geographical segment revenues for fiscal years 2009 and 2008:

	2009 (in millions)	2008 (in millions)
United States	$7,104	$ 7,532
International	1,920	2,103
Global consumer products	750	748
Total revenues	$9,774	$10,383

a. Prepare a horizontal analysis of the segment data using 2008 as the base year.

b. Prepare a vertical analysis of the segment data.

c. What conclusions can be drawn from your analyses?

OBJ. 5

EX 5-26 Segment revenue vertical analysis

News Corporation is one of the world's largest entertainment companies that includes Twentieth Century Fox films, Fox Broadcasting, Fox News, the FX, and various satellite, cable, and publishing properties. The company provided revenue disclosures by its major product segments in the notes to its financial statements as follows:

Major Product Segments	For the Year Ended June 30, 2009 (in millions)
Filmed Entertainment	$ 5,936
Television	4,602
Cable Network Programming	5,580
Direct Broadcast Satellite Television	3,760
Magazines and Inserts	1,168
Newspapers and Information Services	5,858
Book Publishing	1,141
Other	2,378
Total revenues	$30,423

a. Provide a vertical analysis of the product segment revenues.

b. Are the revenues of News Corporation diversified or concentrated within a product segment? Explain.

OBJ. 5

EX 5-27 Segment revenue horizontal and vertical analyses

The comparative regional segment revenues for McDonald's Corporation is as follows:

	2009 (in millions)	2008 (in millions)
United States	$ 7,943.8	$ 8,078.3
Europe	9,273.8	9,922.9
APMEA*	4,337.0	4,230.8
Other Countries & Corporate	1,190.1	1,290.4
Total revenues	$22,744.7	$23,522.4

*APMEA = Asia/Pacific, Middle East, Africa

a. Provide a horizontal analysis of the regional segment revenues using 2008 as the base year. Round whole percents to one digit.

b. Provide a vertical analysis of the regional segment revenues for both years. Round whole percents to one digit.

c. What conclusions can be drawn from your analyses?

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Problems Series A

OBJ. 2, 3

✔ 1. Revenue journal, total fees earned, $830

PR 5-1A Revenue journal; accounts receivable and general ledgers

Newton Learning Centers was established on October 20, 2012, to provide educational services. The services provided during the remainder of the month are as follows:

Oct. 21. Issued Invoice No. 1 to J. Dunlop for $60 on account.

22. Issued Invoice No. 2 to K. Todd for $255 on account.

24. Issued Invoice No. 3 to T. Patrick for $55 on account.

25. Provided educational services, $100, to K. Todd in exchange for educational supplies.

27. Issued Invoice No. 4 to F. Mintz for $150 on account.

30. Issued Invoice No. 5 to D. Chase for $135 on account.

30. Issued Invoice No. 6 to K. Todd for $105 on account.

31. Issued Invoice No. 7 to T. Patrick for $70 on account.

Instructions

1. Journalize the transactions for October, using a single-column revenue journal and a two-column general journal. Post to the following customer accounts in the accounts receivable ledger, and insert the balance immediately after recording each entry: D. Chase; J. Dunlop; F. Mintz; T. Patrick; K. Todd.
2. Post the revenue journal and the general journal to the following accounts in the general ledger, inserting the account balances only after the last postings:

12 Accounts Receivable
13 Supplies
41 Fees Earned

3. a. What is the sum of the balances of the accounts in the subsidiary ledger at October 31?
   b. What is the balance of the controlling account at October 31?
4. Assume Newton Learning Centers began using a computerized accounting system to record the sales transactions on November 1. What are some of the benefits of the computerized system over the manual system?

OBJ. 2, 3

✔ 3. Total cash receipts, $32,870

PR 5-2A Revenue and cash receipts journals; accounts receivable and general ledgers

Transactions related to revenue and cash receipts completed by Aspen Architects Co. during the period June 2–30, 2012, are as follows:

June 2. Issued Invoice No. 793 to Nickle Co., $4,900.

5. Received cash from Mendez Co. for the balance owed on its account.

6. Issued Invoice No. 794 to Preston Co., $1,760.

13. Issued Invoice No. 795 to Shilo Co., $2,630.

Post revenue and collections to the accounts receivable subsidiary ledger.

15. Received cash from Preston Co. for the balance owed on June 1.

16. Issued Invoice No. 796 to Preston Co., $5,500.

Post revenue and collections to the accounts receivable subsidiary ledger.

19. Received cash from Nickle Co. for the balance due on invoice of June 2.

20. Received cash from Preston Co. for invoice of June 6.

22. Issued Invoice No. 797 to Mendez Co., $7,240.

25. Received $2,000 note receivable in partial settlement of the balance due on the Shilo Co. account.

30. Recorded cash fees earned, $12,350.

Post revenue and collections to the accounts receivable subsidiary ledger.

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Instructions

1. Insert the following balances in the general ledger as of June 1:

11	Cash	$11,350
12	Accounts Receivable	13,860
14	Notes Receivable	6,000
41	Fees Earned	—

2. Insert the following balances in the accounts receivable subsidiary ledger as of June 1:

Mendez Co.	$7,970
Nickle Co.	—
Preston Co.	5,890
Shilo Co.	—

3. Prepare a single-column revenue journal (p. 40) and a cash receipts journal (p. 36). Use the following column headings for the cash receipts journal: Fees Earned Cr., Accounts Receivable Cr., and Cash Dr. The Fees Earned column is used to record cash fees. Insert a check mark (✓) in the Post. Ref. column when recording cash fees.
4. Using the two special journals and the two-column general journal (p. 1), journalize the transactions for June. Post to the accounts receivable subsidiary ledger, and insert the balances at the points indicated in the narrative of transactions. Determine the balance in the customer's account before recording a cash receipt.
5. Total each of the columns of the special journals, and post the individual entries and totals to the general ledger. Insert account balances after the last posting.
6. Determine that the subsidiary ledger agrees with the controlling account in the general ledger.
7. Why would an automated system omit postings to a control account as performed in step 5 for Accounts Receivable?

OBJ. 2, 4

✔ 5b. Total accounts payable credit, $14,195

PR 5-3A Purchases, accounts payable account, and accounts payable ledger

English Garden Landscaping designs and installs landscaping. The landscape designers and office staff use office supplies, while field supplies (rock, bark, etc.) are used in the actual landscaping. Purchases on account completed by English Garden Landscaping during January 2012 are as follows:

Jan. 2. Purchased office supplies on account from Meade Co., $350.
5. Purchased office equipment on account from Peach Computers Co., $3,150.
9. Purchased office supplies on account from Executive Office Supply Co., $290.
13. Purchased field supplies on account from Yamura Co., $1,140.
14. Purchased field supplies on account from Naples Co., $2,680.
17. Purchased field supplies on account from Yamura Co., $1,050.
24. Purchased field supplies on account from Naples Co., $3,240.
29. Purchased office supplies on account from Executive Office Supply Co., $260.
31. Purchased field supplies on account from Naples Co., $1,000.

Instructions

1. Insert the following balances in the general ledger as of January 1:

14	Field Supplies	$ 5,920
15	Office Supplies	750
18	Office Equipment	12,300
21	Accounts Payable	1,035

2. Insert the following balances in the accounts payable subsidiary ledger as of January 1:

Executive Office Supply Co.	$340
Meade Co.	695
Naples Co.	—
Peach Computers Co.	—
Yamura Co.	—

3. Journalize the transactions for January, using a purchases journal (p. 30) similar to the one illustrated in this chapter. Prepare the purchases journal with columns for Accounts

(Continued)

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Payable, Field Supplies, Office Supplies, and Other Accounts. Post to the creditor accounts in the accounts payable subsidiary ledger immediately after each entry.

4. Post the purchases journal to the accounts in the general ledger.
5. a. What is the sum of the balances in the subsidiary ledger at January 31?
   b. What is the balance of the controlling account at January 31?
6. What type of e-commerce application would be used to plan and coordinate suppliers?

OBJ. 2

✔ 1. Total cash payments, $93,615

PR 5-4A Purchases and cash payments journals; accounts payable and general ledgers

Green Mountain Water Testing Service was established on November 16, 2012. Green Mountain uses field equipment and field supplies (chemicals and other supplies) to analyze water for unsafe contaminants in streams, lakes, and ponds. Transactions related to purchases and cash payments during the remainder of November are as follows:

Nov. 16. Issued Check No. 1 in payment of rent for the remainder of November, $1,700.
16. Purchased field supplies on account from Hydro Supply Co., $4,380.
16. Purchased field equipment on account from Test-Rite Equipment Co., $16,900.
17. Purchased office supplies on account from Best Office Supply Co., $375.
19. Issued Check No. 2 in payment of field supplies, $2,560, and office supplies, $300.
Post the journals to the accounts payable subsidiary ledger.
23. Purchased office supplies on account from Best Office Supply Co., $580.
23. Issued Check No. 3 to purchase land, $45,000.
24. Issued Check No. 4 to Hydro Supply Co. in payment of invoice, $4,380.
26. Issued Check No. 5 to Test-Rite Equipment Co. in payment of invoice, $16,900.
Post the journals to the accounts payable subsidiary ledger.
30. Acquired land in exchange for field equipment having a cost of $8,000.
30. Purchased field supplies on account from Hydro Supply Co., $5,900.
30. Issued Check No. 6 to Best Office Supply Co. in payment of invoice, $375.
30. Purchased the following from Test-Rite Equipment Co. on account: field supplies, $900, and field equipment, $3,700.
30. Issued Check No. 7 in payment of salaries, $22,400.
Post the journals to the accounts payable subsidiary ledger.

Instructions

1. Journalize the transactions for November. Use a purchases journal and a cash payments journal, similar to those illustrated in this chapter, and a two-column general journal. Use debit columns for Field Supplies, Office Supplies, and Other Accounts in the purchases journal. Refer to the following partial chart of accounts:

11	Cash	19	Land
14	Field Supplies	21	Accounts Payable
15	Office Supplies	61	Salary Expense
17	Field Equipment	71	Rent Expense

At the points indicated in the narrative of transactions, post to the following accounts in the accounts payable subsidiary ledger:

Best Office Supply Co.
Hydro Supply Co.
Test-Rite Equipment Co.

2. Post the individual entries (Other Accounts columns of the purchases journal and the cash payments journal and both columns of the general journal) to the appropriate general ledger accounts.
3. Total each of the columns of the purchases journal and the cash payments journal, and post the appropriate totals to the general ledger. (Because the problem does not include transactions related to cash receipts, the cash account in the ledger will have a credit balance.)
4. Sum the balances of the accounts payable subsidiary ledger.
5. Why might Green Mountain consider using a subsidiary ledger for the field equipment?

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OBJ. 2

✔ 2. Total cash receipts, $58,160

PR 5-5A All journals and general ledger; trial balance

The transactions completed by Sure N' Safe Courier Company during July 2012, the first month of the fiscal year, were as follows:

July
1. Issued Check No. 610 for July rent, $7,500.
2. Issued Invoice No. 940 to Capps Co., $2,680.
3. Received check for $6,700 from Trimble Co. in payment of account.
5. Purchased a vehicle on account from Browning Transportation, $34,600.
6. Purchased office equipment on account from Austin Computer Co., $5,200.
6. Issued Invoice No. 941 to Dawar Co., $5,970.
9. Issued Check No. 611 for fuel expense, $900.
10. Received check from Sing Co. in payment of $3,980 invoice.
10. Issued Check No. 612 for $1,040 to Office To Go Inc. in payment of invoice.
10. Issued Invoice No. 942 to Joy Co., $2,640.
11. Issued Check No. 613 for $3,670 to Essential Supply Co. in payment of account.
11. Issued Check No. 614 for $725 to Porter Co. in payment of account.
12. Received check from Capps Co. in payment of $2,680 invoice.
13. Issued Check No. 615 to Browning Transportation in payment of $34,600 balance.
16. Issued Check No. 616 for $42,100 for cash purchase of a vehicle.
16. Cash fees earned for July 1–16, $18,900.
17. Issued Check No. 617 for miscellaneous administrative expense, $750.
18. Purchased maintenance supplies on account from Essential Supply Co., $1,950.
19. Purchased the following on account from McClain Co.: maintenance supplies, $1,900; office supplies, $470.
20. Issued Check No. 618 in payment of advertising expense, $2,350.
20. Used $4,000 maintenance supplies to repair delivery vehicles.
23. Purchased office supplies on account from Office To Go Inc., $600.
24. Issued Invoice No. 943 to Sing Co., $7,000.
24. Issued Check No. 619 to J. Bourne as a personal withdrawal, $3,000.
25. Issued Invoice No. 944 to Dawar Co., $6,450.
25. Received check for $4,500 from Trimble Co. in payment of balance.
26. Issued Check No. 620 to Austin Computer Co. in payment of $5,200 invoice of July 6.
30. Issued Check No. 621 for monthly salaries as follows: driver salaries, $18,900; office salaries, $8,300.
31. Cash fees earned for July 17–31, $21,400.
31. Issued Check No. 622 in payment for office supplies, $800.

Instructions

1. Enter the following account balances in the general ledger as of July 1:

11	Cash	$167,900	32	J. Bourne, Drawing	—
12	Accounts Receivable	15,180	41	Fees Earned	—
14	Maintenance Supplies	10,850	51	Driver Salaries Expense	—
15	Office Supplies	4,900	52	Maintenance Supplies Exp.	—
16	Office Equipment	28,500	53	Fuel Expense	—
17	Accum. Depr.—Office Equip.	6,900	61	Office Salaries Expense	—
18	Vehicles	95,900	62	Rent Expense	—
19	Accum. Depr.—Vehicles	14,700	63	Advertising Expense	—
21	Accounts Payable	5,435	64	Miscellaneous Administrative Expense	—
31	J. Bourne, Capital	296,195			

(*Continued*)

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2. Journalize the transactions for July 2012, using the following journals similar to those illustrated in this chapter: cash receipts journal (p. 31), purchases journal (p. 37, with columns for Accounts Payable, Maintenance Supplies, Office Supplies, and Other Accounts), single-column revenue journal (p. 35), cash payments journal (p. 34), and two-column general journal (p. 1). Assume that the daily postings to the individual accounts in the accounts payable ledger and the accounts receivable ledger have been made.
3. Post the appropriate individual entries to the general ledger.
4. Total each of the columns of the special journals, and post the appropriate totals to the general ledger; insert the account balances.
5. Prepare a trial balance.

Problems Series B

OBJ. 2, 3

✔ 1. Revenue journal, total fees earned, $2,320

PR 5-1B Revenue journal; accounts receivable and general ledgers

Sentinel Security Services was established on March 15, 2012, to provide security services. The services provided during the remainder of the month are listed below.

Mar. 18. Issued Invoice No. 1 to Murphy Co. for $410 on account.
20. Issued Invoice No. 2 to Qwik-Mart Co. for $290 on account.
24. Issued Invoice No. 3 to Goforth Co. for $625 on account.
27. Issued Invoice No. 4 to Carson Co. for $510 on account.
28. Issued Invoice No. 5 to Amber Waves Co. for $100 on account.
28. Provided security services, $90, to Qwik-Mart Co. in exchange for supplies.
30. Issued Invoice No. 6 to Qwik-Mart Co. for $140 on account.
31. Issued Invoice No. 7 to Goforth Co. for $245 on account.

Instructions

1. Journalize the transactions for March, using a single-column revenue journal and a two-column general journal. Post to the following customer accounts in the accounts receivable ledger, and insert the balance immediately after recording each entry: Amber Waves Co.; Carson Co.; Goforth Co.; Murphy Co.; Qwik-Mart Co.
2. Post the revenue journal to the following accounts in the general ledger, inserting the account balances only after the last postings:

12	Accounts Receivable
14	Supplies
41	Fees Earned

3. a. What is the sum of the balances of the accounts in the subsidiary ledger at March 31?
   b. What is the balance of the controlling account at March 31?
4. Assume Sentinel Security Services began using a computerized accounting system to record the sales transactions on April 1. What are some of the benefits of the computerized system over the manual system?

OBJ. 2, 3

✔ 3. Total cash receipts, $7,690

PR 5-2B Revenue and cash receipts journals; accounts receivable and general ledgers

Transactions related to revenue and cash receipts completed by Pinnacle Engineering Services during the period April 2–30, 2012, are as follows:

Apr. 2. Issued Invoice No. 717 to Yee Co., $950.
3. Received cash from Auto-Flex Co. for the balance owed on its account.
7. Issued Invoice No. 718 to Park Development Co., $530.
10. Issued Invoice No. 719 to Ridge Communities, $2,350.

Post revenue and collections to the accounts receivable subsidiary ledger.

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Apr. 14. Received cash from Park Development Co. for the balance owed on April 1.
16. Issued Invoice No. 720 to Park Development Co., $325.
Post revenue and collections to the accounts receivable subsidiary ledger.
18. Received cash from Yee Co. for the balance due on invoice of April 2.
20. Received cash from Park Development Co. for invoice of April 7.
23. Issued Invoice No. 721 to Auto-Flex Co., $790.
30. Recorded cash fees earned, $3,950.
30. Received office equipment of $1,500 in partial settlement of balance due on the Ridge Communities account.
Post revenue and collections to the accounts receivable subsidiary ledger.

Instructions

1. Insert the following balances in the general ledger as of April 1:

11	Cash	$18,340
12	Accounts Receivable	2,260
18	Office Equipment	34,700
41	Fees Earned	—

2. Insert the following balances in the accounts receivable subsidiary ledger as of April 1:

Auto-Flex Co.	$1,460
Park Development Co.	800
Ridge Communities	—
Yee Co.	—

3. Prepare a single-column revenue journal (p. 40) and a cash receipts journal (p. 36). Use the following column headings for the cash receipts journal: Fees Earned Cr., Accounts Receivable Cr., and Cash Dr. The Fees Earned column is used to record cash fees. Insert a check mark (✓) in the Post. Ref. column when recording cash fees.
4. Using the two special journals and the two-column general journal (p. 1), journalize the transactions for April. Post to the accounts receivable subsidiary ledger, and insert the balances at the points indicated in the narrative of transactions. Determine the balance in the customer's account before recording a cash receipt.
5. Total each of the columns of the special journals, and post the individual entries and totals to the general ledger. Insert account balances after the last posting.
6. Determine that the subsidiary ledger agrees with the controlling account in the general ledger.
7. Why would an automated system omit postings to a control account as performed in step 5 for Accounts Receivable?

OBJ. 2, 4

✔ 5a. Total accounts payable credit, $27,370

PR 5-3B Purchases, accounts payable account, and accounts payable ledger

True Plumb Surveyors provides survey work for construction projects. The office staff use office supplies, while surveying crews use field supplies. Purchases on account completed by True Plumb Surveyors during August 2012 are as follows:

Aug. 1. Purchased field supplies on account from Wendell Co., $2,670.
3. Purchased office supplies on account from Lassiter Co., $290.
8. Purchased field supplies on account from Ready Supplies, $3,900.
12. Purchased field supplies on account from Wendell Co., $2,950.
15. Purchased office supplies on account from J-Mart Co., $400.
19. Purchased office equipment on account from Accu-Vision Supply Co., $7,350.
23. Purchased field supplies on account from Ready Supplies, $2,140.
26. Purchased office supplies on account from J-Mart Co., $205.
30. Purchased field supplies on account from Ready Supplies, $2,750.

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Instructions

1. Insert the following balances in the general ledger as of August 1:

14	Field Supplies	$ 6,200
15	Office Supplies	1,490
18	Office Equipment	19,400
21	Accounts Payable	4,715

2. Insert the following balances in the accounts payable subsidiary ledger as of August 1:

Accu-Vision Supply Co.	$3,600
J-Mart Co.	690
Lassiter Co.	425
Ready Supplies	—
Wendell Co.	—

3. Journalize the transactions for August, using a purchases journal (p. 30) similar to the one illustrated in this chapter. Prepare the purchases journal with columns for Accounts Payable, Field Supplies, Office Supplies, and Other Accounts. Post to the creditor accounts in the accounts payable ledger immediately after each entry.
4. Post the purchases journal to the accounts in the general ledger.
5. a. What is the sum of the balances in the subsidiary ledger at August 31?
   b. What is the balance of the controlling account at August 31?
6. What type of e-commerce application would be used to plan and coordinate suppliers?

OBJ. 2

✔ 1. Total cash payments, $265,000

PR 5-4B Purchases and cash payments journals; accounts payable and general ledgers

Texas Tea Exploration Co. was established on July 15, 2012, to provide oil-drilling services. Texas Tea uses field equipment (rigs and pipe) and field supplies (drill bits and lubricants) in its operations. Transactions related to purchases and cash payments during the remainder of July are as follows:

July 16. Issued Check No. 1 in payment of rent for the remainder of July, $6,000.
16. Purchased field equipment on account from Petro Services Inc., $26,400.
17. Purchased field supplies on account from Culver Supply Co., $8,750.
18. Issued Check No. 2 in payment of field supplies, $3,150, and office supplies, $500.
20. Purchased office supplies on account from A-One Office Supply Co., $1,200.

Post the journals to the accounts payable subsidiary ledger.

24. Issued Check No. 3 to Petro Services Inc., in payment of July 16 invoice.
26. Issued Check No. 4 to Culver Supply Co. in payment of July 17 invoice.
28. Issued Check No. 5 to purchase land, $190,000.
28. Purchased office supplies on account from A-One Office Supply Co., $2,970.

Post the journals to the accounts payable subsidiary ledger.

30. Purchased the following from Petro Services Inc. on account: field supplies, $22,980 and office equipment, $4,200.
30. Issued Check No. 6 to A-One Office Supply Co. in payment of July 20 invoice.
30. Purchased field supplies on account from Culver Supply Co., $10,200.
31. Issued Check No. 7 in payment of salaries, $29,000.
31. Rented building for one year in exchange for field equipment having a cost of $14,000.

Post the journals to the accounts payable subsidiary ledger.

Instructions

1. Journalize the transactions for July. Use a purchases journal and a cash payments journal, similar to those illustrated in this chapter, and a two-column general journal. Set debit columns for Field Supplies, Office Supplies, and Other Accounts in the purchases journal. Refer to the following partial chart of accounts:

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11	Cash	18	Office Equipment
14	Field Supplies	19	Land
15	Office Supplies	21	Accounts Payable
16	Prepaid Rent	61	Salary Expense
17	Field Equipment	71	Rent Expense

At the points indicated in the narrative of transactions, post to the following subsidiary accounts in the accounts payable ledger:

A-One Office Supply Co.
Culver Supply Co.
Petro Services Inc.

2. Post the individual entries (Other Accounts columns of the purchases journal and the cash payments journal; both columns of the general journal) to the appropriate general ledger accounts.
3. Total each of the columns of the purchases journal and the cash payments journal, and post the appropriate totals to the general ledger. (Because the problem does not include transactions related to cash receipts, the cash account in the ledger will have a credit balance.)
4. Sum the balances of the accounts payable subsidiary ledger.
5. Why might Texas Tea consider using a subsidiary ledger for the field equipment?

OBJ. 2

✔ 2. Total cash receipts, $84,390

PR 5-5B All journals and general ledger; trial balance

The transactions completed by By Tomorrow Express Company during May 2012, the first month of the fiscal year, were as follows:

May
1. Issued Check No. 205 for May rent, $1,500.
2. Purchased a vehicle on account from McIntyre Sales Co., $23,700.
3. Purchased office equipment on account from Office Mate Inc., $640.
5. Issued Invoice No. 91 to Martin Co., $6,000.
6. Received check for $6,890 from Chavez Co. in payment of invoice.
7. Issued Invoice No. 92 to Trent Co., $8,650.
9. Issued Check No. 206 for fuel expense, $710.
10. Received check for $9,500 from Sajeev Co. in payment of invoice.
10. Issued Check No. 207 to Office City in payment of $500 invoice.
10. Issued Check No. 208 to Bastille Co. in payment of $1,450 invoice.
11. Issued Invoice No. 93 to Jarvis Co., $6,900.
11. Issued Check No. 209 to Porter Co. in payment of $375 invoice.
12. Received check for $6,000 from Martin Co. in payment of invoice.
13. Issued Check No. 210 to McIntyre Sales Co. in payment of $23,700 invoice.
16. Cash fees earned for May 1–16, $24,600.
16. Issued Check No. 211 for purchase of a vehicle, $24,000.
17. Issued Check No. 212 for miscellaneous administrative expense, $4,360.
18. Purchased maintenance supplies on account from Bastille Co., $1,790.
18. Received check for rent revenue on office space, $2,500.
19. Purchased the following on account from Master Supply Co.: maintenance supplies, $2,500, and office supplies, $2,000.
20. Issued Check No. 213 in payment of advertising expense, $7,810.
20. Used maintenance supplies with a cost of $4,200 to repair vehicles.
21. Purchased office supplies on account from Office City, $790.
24. Issued Invoice No. 94 to Sajeev Co., $8,000.
25. Received check for $12,500 from Chavez Co. in payment of invoice.

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May 25. Issued Invoice No. 95 to Trent Co., $5,900.
26. Issued Check No. 214 to Office Mate Inc. in payment of $640 invoice.
27. Issued Check No. 215 to J. Wu as a personal withdrawal, $3,500.
30. Issued Check No. 216 in payment of driver salaries, $29,300.
31. Issued Check No. 217 in payment of office salaries, $19,400.
31. Issued Check No. 218 for office supplies, $560.
31. Cash fees earned for May 17–31, $22,400.

Instructions

1. Enter the following account balances in the general ledger as of May 1:

11	Cash	$ 65,200	32	J. Wu, Drawing	—
12	Accounts Receivable	28,890	41	Fees Earned	—
14	Maintenance Supplies	7,240	42	Rent Revenue	—
15	Office Supplies	3,690	51	Driver Salaries Expense	—
16	Office Equipment	17,300	52	Maintenance Supplies Expense	—
17	Accum. Depr.—Office Equip.	4,250	53	Fuel Expense	—
18	Vehicles	62,400	61	Office Salaries Expense	—
19	Accum. Depr.—Vehicles	17,800	62	Rent Expense	—
21	Accounts Payable	2,325	63	Advertising Expense	—
31	J. Wu, Capital	160,345	64	Miscellaneous Administrative Exp.	—

2. Journalize the transactions for May 2012, using the following journals similar to those illustrated in this chapter: single-column revenue journal (p. 35), cash receipts journal (p. 31), purchases journal (p. 37, with columns for Accounts Payable, Maintenance Supplies, Office Supplies, and Other Accounts), cash payments journal (p. 34), and two-column general journal (p. 1). Assume that the daily postings to the individual accounts in the accounts payable ledger and the accounts receivable ledger have been made.
3. Post the appropriate individual entries to the general ledger.
4. Total each of the columns of the special journals, and post the appropriate totals to the general ledger; insert the account balances.
5. Prepare a trial balance.

Cases & Projects

CP 5-1 Ethics and professional conduct in business

E-Biz Financial, Inc., provides accounting applications for business customers on the Internet for a monthly subscription. E-Biz Financial customers run their accounting system on the Internet; thus, the business data and accounting software reside on the servers of E-Biz Financial, Inc. The senior management of E-Biz believes that once a customer begins to use E-Biz Financial it would be very difficult to cancel the service. That is, customers are "locked in" because it would be difficult to move the business data from E-Biz Financial to another accounting application, even though the customers own their own data. Therefore, E-Biz Financial has decided to entice customers with an initial low monthly price that is half of the normal monthly rate for the first year of services. After a year, the price will be increased to the regular monthly rate. E-Biz Financial management believes that customers will have to accept the full price because customers will be "locked in" after one year of use.

a. Discuss whether the half-price offer is an ethical business practice.
b. Discuss whether customer "lock in" is an ethical business practice.

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CP 5-2 Manual vs. computerized accounting systems

The following conversation took place between Merit Construction Co.'s bookkeeper, Dan Essex, and the accounting supervisor, Sarah Nelson:

Sarah: Dan, I'm thinking about bringing in a new computerized accounting system to replace our manual system. I guess this will mean that you will need to learn how to do computerized accounting.

Dan: What does computerized accounting mean?

Sarah: I'm not sure, but you'll need to prepare for this new way of doing business.

Dan: I'm not so sure we need a computerized system. I've been looking at some of the sample reports from the software vendor. It looks to me as if the computer will not add much to what we are already doing.

Sarah: What do you mean?

Dan: Well, look at these reports. This Sales by Customer Report looks like our revenue journal, and the Deposit Detail Report looks like our cash receipts journal. Granted, the computer types them, so they look much neater than my special journals, but I don't see that we're gaining much from this change.

Sarah: Well, surely there's more to it than nice-looking reports. I've got to believe that a computerized system will save us time and effort someplace.

Dan: I don't see how. We still need to key in transactions into the computer. If anything, there may be more work when it's all said and done.

Do you agree with Dan? Why might a computerized environment be preferred over the manual system?

CP 5-3 Accounts receivable and accounts payable

A subsidiary ledger is used for accounts receivable and accounts payable. Thus, transactions that are made "on account" are posted to the individual customer or vendor accounts.

a. Why do companies use subsidiary ledgers for accounts payable and accounts receivable?

b. Identify another account that may benefit from using a subsidiary ledger.

CP 5-4 Design of accounting systems

For the past few years, your client, Professional Health Services (PHS), has operated a small medical practice. PHS's current annual revenues are $945,000. Because the accountant has been spending more and more time each month recording all transactions in a two-column journal and preparing the financial statements, PHS is considering improving the accounting system by adding special journals and subsidiary ledgers. PHS has asked you to help with this project and has compiled the following information:

Type of Transaction	Estimated Frequency per Month
Fees earned on account	240
Purchase of medical supplies on account	190
Cash receipts from patients on account	175
Cash payments on account	160
Cash receipts from patients at time services provided	120
Purchase of office supplies on account	35
Purchase of magazine subscriptions on account	5
Purchase of medical equipment on account	4
Cash payments for office salaries	3
Cash payments for utilities expense	3

1. Briefly discuss the circumstances under which special journals would be used in place of a two-column (all-purpose) journal. Include in your answer your recommendations for PHS's medical practice.
2. Assume that PHS has decided to use a revenue journal and a purchases journal. Design the format for each journal, giving special consideration to the needs of the medical practice.
3. Which subsidiary ledgers would you recommend for the medical practice?

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Internet Project

CP 5-5 Internet-based accounting systems

Internet-based accounting software is a recent trend in business computing. Major software firms such as Oracle, SAP, and NetSuites are running their core products on the Internet. NetSuite Inc. is one of the most popular small business Internet-based accounting systems.

Go to the text's Web site at **academic.cengage.com/accounting/warren** and click on the link to the NetSuite Inc. site. Read about the product from the site, and prepare a memo to management, defining Internet-based accounting. Also, outline the advantages and disadvantages of Internet-based accounting compared to running software on a company's internal computer network.

Internet Project

CP 5-6 SCM and CRM

Group Project

The two leading software application providers for supply chain management (SCM) and customer relationship management (CRM) software are i2 Technologies and Salesforce.com, respectively. In groups of two or three, go to the Web site for each company (linked to the text's Web site at **academic.cengage.com/accounting/warren**) and list the functions provided by each company's application.

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